FAIRFAX

FINANCIAL HOLDINGS LIMITED

2000 Annual Report

Contents

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Five Year Financial Highlights

(in $ millions except share and per share data)

	2000	1999	1998	1997	1996
Revenue	6,188.5	5,788.5	3,574.3	2,088.3	1,475.8
Net earnings	137.4	124.2	387.5	232.5	150.8
Total assets	31,833.3	31,979.1	20,886.7	10,207.3	5,778.4
Common shareholders' equity	3,180.3	3,116.0	2,238.9*	1,395.7	911.1
Common shares outstanding – year-end *(millions)*	13.1	13.4	12.1*	11.1	10.5
Return on average equity	4.1%	4.3%	20.1%	20.4%	21.4%
Per share					
Net earnings	9.41	9.20	32.63	21.59	15.36
Common shareholders' equity	242.75	231.98	184.54	125.38	87.05
Market prices per share					
High	246.00	610.00	603.00	403.00	310.00
Low	146.75	180.00	253.00	285.00	98.00
Close	228.50	245.50	540.00	320.00	290.00

** not including share subscription receipts issued December 22, 1998 or their proceeds*

Corporate Profile

Fairfax Financial Holdings Limited is a financial services holding company whose corporate objective is to achieve a high rate of return on invested capital and build long term shareholder value. The company has been under present management since September 1985.

Insurance subsidiaries

Commonwealth Insurance, based in Vancouver, offers commercial property and oil, gas and petrochemicals insurance in Canada, the United States and internationally, and commercial casualty insurance in Canada. The company has been in business since 1947. In 2000, Commonwealth's net premiums written were $80.0 million. At year-end, the company had capital and surplus of $146.9 million and there were 130 employees.

Crum & Forster (C&F), based in Morristown, New Jersey, is a national commercial lines property and casualty insurance group in the United States that operates on a regional basis and produces business through a network of independent agents and brokers and specialty producers. The company has been in business since 1824. In 2000, C&F's net premiums written were US$506.5 million. At year-end, the company had capital and surplus of US$980.5 million and there were 1,205 employees.

Falcon Insurance, based in Hong Kong, writes property and casualty insurance to niche markets in Hong Kong. In 2000, Falcon's net premiums written were HK$66.1 million (approximately HK$5.2 = C$1). At year-end, the company had capital and surplus of HK$241.8 million and there were 42 employees.

Federated Insurance, based in Winnipeg, markets a broad range of insurance products in Canada primarily for commercial customers. The company has been in business since 1920. In 2000, Federated's net premiums written were $71.0 million, consisting of $56.0 million of property and casualty business and $15.0 million of life and group health and disability products. At year-end, the company had capital and surplus of $42.9 million and there were 255 employees.

Lombard Insurance, based in Toronto, writes a complete range of commercial and personal insurance products in Canada. The company has been in business since 1904. In 2000, Lombard's net premiums written were $343.3 million. At year-end, the company had capital and surplus of $174.2 million and there were 673 employees.

Markel Insurance, based in Toronto, is the leading trucking insurance company in Canada and has provided the Canadian trucking industry with a continuous market for this class of insurance since 1951. In 2000, Markel's net premiums written were $65.2 million. At year-end, the company had capital and surplus of $45.5 million and there were 131 employees.

Ranger Insurance, based in Houston, specializes in writing property and casualty insurance in the United States to niche markets which require unique underwriting, claims and loss control expertise (propane, agri-products, self-storage, bail bonds and public entities). The company has been in business since 1923. In 2000, Ranger's net premiums written were

US$47.0 million. At year-end, the company had capital and surplus of US$107.7 million and there were 166 employees.

TIG Specialty Insurance, based in Dallas, is licensed to write substantially all lines of property and casualty insurance in all states of the United States and in Canada. The company has been in business since 1911. In 2000, TIG's net premiums written were US$978.6 million. At year-end, the company had capital and surplus of US$1,256.8 million and there were 748 employees.

Odyssey Re Group reinsurance subsidiaries

Odyssey America Reinsurance, based in Stamford, Connecticut, underwrites treaty and facultative reinsurance as well as certain insurance business, with branches in London, Paris, Singapore and Toronto and affiliated offices in New York, Miami, Mexico City, Santiago, Cologne, Stockholm and Tokyo. In 2000, Odyssey America Re's net premiums written were US$677.2 million. At year-end, the company had capital and surplus of US$1,039.3 million and there were 304 employees. London market business is primarily underwritten through Syndicate #1218 at Lloyd's. In 2000, the Syndicate's net premiums written (included in Odyssey America Re's net premiums written) were US$68.0 million.

Compagnie Transcontinentale de Réassurance (CTR), based in Paris, writes life reinsurance internationally. In 2000, CTR's property and casualty and life reinsurance net premiums written were US$110.3 million. Effective July 1, 2000, CTR's European property and casualty reinsurance was written through Odyssey America Re's Paris branch, and effective January 1, 2001, CTR's Asian property and casualty reinsurance was written through Odyssey America Re's Singapore branch. At year-end, the company had capital and surplus of US$104.4 million and there were 119 employees.

Other reinsurance subsidiaries

CRC (Bermuda) Reinsurance, based in Bermuda, continues to be a major reinsurer of Lombard Insurance. In 2000, CRC (Bermuda)'s net premiums written were $118.0 million. At year-end, the company had capital and surplus of $147.9 million.

ORC Re, based in Dublin, was established in 1997. It writes selected long term property and casualty reinsurance and fully reinsures the reinsurance portfolios of Fairfax's international runoff operations to provide consolidated investment and liquidity management services, with the RiverStone Group retaining full responsibility for all other aspects of the runoff. In 2000, ORC Re's net premiums written were US$141.4 million. At year-end, the company had capital and surplus of US$1,910.8 million and there were eight employees.

Wentworth Insurance, based in Barbados, was incorporated in 1990. In 2000, Wentworth's net premiums written were US$40.6 million. At year-end, the company had capital and surplus of US$154.4 million and there were seven employees.

Runoff subsidiaries

The Resolution Group (TRG) was formed in 1993 to manage the runoff of International Insurance Company and other discontinued lines of business written by the former Talegen group of insurance companies. The runoff required effective management of major direct excess and surplus lines insurance and reinsurance liabilities, the resolution of complex litigation and the collection and management of reinsurance assets. At year-end, International Insurance had capital and surplus of US$319.2 million.

RiverStone Group (RiverStone), run by TRG management, was established following the acquisition of TRG, primarily to manage the runoff of certain Fairfax insurance subsidiaries and other discontinued lines of business written by other Fairfax companies. RiverStone manages the Sphere Drake and Odyssey Re Stockholm runoff operations.

Claims adjusting and insurance brokerage

Lindsey Morden Group is engaged in providing claims adjusting, appraisal and claims and risk management services to a wide variety of insurance companies and self-insured organizations in Canada, the United States, the United Kingdom, continental Europe, the Far East, Latin America and the Middle East. In 2000, revenue totalled $376.9 million. The company was established in 1923, and at year-end the group had 3,705 employees located in 348 offices.

Hub International is an insurance brokerage company selling a broad range of commercial, personal and life insurance products. The company was established in 1998, and at year-end had 1,330 employees in 113 offices in Canada and the United States.

Investment management subsidiary

Hamblin Watsa Investment Counsel (HWIC) provides investment management to the insurance, reinsurance and runoff subsidiaries of Fairfax. HWIC was founded in 1984.

Note: All companies are wholly owned except TRG, a private company in which Fairfax owns an effective 27.5% economic (100% voting) interest; Lindsey Morden Group, a public company of which Fairfax owns 66.5% of the equity and 85.9% of the votes; and Hub International, a public company of which Fairfax owns 41.7%.

To Our Shareholders

I was too optimistic! For the fourth time in 15 years and the first consecutive two year period, we did not earn a return on equity in excess of 20%. We earned 4.1% on shareholders' equity in 2000 (versus 11.4% for the TSE300) – another year of very low returns on equity and again, for the second year in a row, a return less than the TSE300. Net income after taxes increased by 11% to $137.4 million while earnings per share increased by only 2% (because of preferred share dividends in 2000 of $13.4 million) to $9.41 from $9.20 per share. Book value per share increased by 5% to $242.75 while our share price dropped 7% to $228.50 from $245.50 at year-end 1999. From a net income and return point of view, there is no question that 1999 and 2000 were the worst years we have had in our 15 year history. This resulted in our stock price selling below book value for 15 months – from September 1999 to December 2000 – only the second time this has happened in our 15 year history (the first was from March 1990 to September 1991). Our low stock price attracted many "deep value" investors who purchased our stock just as they purchased bankrupt Loewen Group bonds. For most of 2000, Fairfax was worth more dead than alive and, given our results, it was easy to see why! 2000 was a very difficult and disappointing year for our company and its shareholders – and I was too optimistic as I said earlier (more on that later).

Having admitted to very disappointing results in the last two years, I want to remind you again that since we began in September 1985, our company has always been run for the long term. We have stressed many times over the years and more recently in our November 1999 letter to you, our shareholders, that "we will accept short term volatility in our earnings for better long term results". While the future is always uncertain, I continue to believe that the long term prospects for Fairfax have never been brighter.

Before discussing 2000 (easier to discuss the past than the present!), let me reiterate Fairfax's excellent long term track record which has been achieved during the longest and toughest down-cycle in the history of the property and casualty business. Book value per share has compounded at 37% annually, while our stock price, even after the recent declines in 1999 and 2000, has compounded at 33% annually. In Canada, there are only two companies, and in the U.S., eight companies, whose stock price has compounded at a rate faster than ours over the past 15 years. Our company has earned an average 18.2% on shareholders' equity since we began 15 years ago (below our objective of 20%, because of our low profits in the past two years) versus 9.4% for the 25 leading U.S. property and casualty insurers. There is only one property and casualty company in the U.S. and Canada that has had a higher return on equity than Fairfax in the past 15 years and none has compounded book value or stock price as fast. You can see why we are so grateful for this long term record.

So what's wrong with Fairfax? When stock prices go down, most investors, various industry analysts and commentators and perhaps even some of our own shareholders are concerned about (a) the long term prospects for Fairfax (Will it ever make a 20% return on equity again?) and (b) the financial strength of the company (Can it survive?).

Both (a) and (b) arise from the fact that we purchased two very large U.S. property and casualty companies in 1998 and 1999 – Crum & Forster (C&F) and TIG. As you know, we bought them

at discounts to book value with reinsurance protection for reserve deficiencies and unrecoverable reinsurance. Many observers believe because we purchased these companies at discounts to book value that they were "damaged goods" or have some unfixable problems. On the other hand, they believe that paying multiples of book value for a company indicates that the company has a solid franchise. Our experience is just the opposite! While there are a few companies that have excellent franchises in the P&C industry, we believe that most acquirers of P&C companies at multiples of book value will be very disappointed with the returns that they will achieve on their purchase price, especially if they have no protection from the past. An analysis of recent acquisition activity in the P&C industry, we think, will confirm our view. Speaking of protection from the past, we have mentioned to you previously that the amortization of the negative goodwill created by our acquisitions at a discount to book value provides some protection from unforeseeable events arising from those acquisitions in the future. As more fully described on page 58, in 2000 we made various reductions to the amortization periods after a thorough review and analysis of the appropriate periods for amortization, based on all available knowledge.

We continue to feel very strongly that we will achieve our 20% return on equity objective on our purchase price for both C&F and TIG – even though the returns will be delayed some! And here is where I have been too optimistic and very wrong! I underestimated the time it would take to turn around the combined ratios for C&F and TIG in the midst of a property and casualty market in 1998 and 1999 which was the softest in well over a decade. So I initially expected C&F to achieve 110% in 1999 and 106% in 2000 (versus results of 124% in 2000) and TIG to achieve 105% in 2000 (versus results of 123%). Clearly, I was too optimistic in my expectations in terms of how long it would take to reduce the combined ratios of C&F and TIG and our results have been atrocious because of that optimism. However, under the leadership of Bruce Esselborn at C&F and Courtney Smith at TIG, we believe strongly that it is not a question of "if" but only a question of "when" both companies achieve their goal of 100% combined or better. I have no forecasts as to "when" other than to say that C&F and TIG, like all of our companies, are singularly focused on this goal of underwriting profitability. The biblical "you will reap what you sow" does not make us unhappy, at least in a business sense.

For you naysayers, the following table shows our record of combined ratios by company under our ownership compared to 5 year results prior to our purchase.

Company	Average Combined Ratios for 5 years prior to purchase	Average Combined Ratios during Fairfax ownership	
Canadian			
Markel	122.4%	106.5%	(103.9%)(1)
Federated	120.7%	102.5%	
Commonwealth	106.1%	105.0%	(98.3%)(2)
Lombard	115.7%	103.4%	
U.S.			
Ranger	110.3%	134.0%	
C&F	120.9%	118.6%	
TIG	118.0%	121.2%	
Reinsurance			
Odyssey Re Group*	113.2%	112.9%	(109.5%)(3)

* *Including CTR, Odyssey Reinsurance Corporation and Odyssey America Re from their respective dates of acquisition*

(1) Average combined ratio under Mark Ram's leadership, 1995-2000

(2) Excluding 1999

(3) Excluding 1999 catastrophes

C&F and TIG's experience in the next few years will likely be similar to Lombard and not Ranger. Remember Ranger was our first U.S. acquisition and it took us some time to identify and attract competent management – not dissimilar to our experience in Canada with our very first acquisition, Markel. Soon after we began in 1985, we went through the same problems at Markel as we did at Ranger. With C&F and TIG, we have been able to attract from among the very best management available in the U.S. property and casualty industry. More on combined ratios in the section on insurance operations.

2000 marked the year when the headwinds that have buffeted the U.S. P&C industry for the past 12 years changed. After years of discounting, insurance rates in the U.S. began to increase in 2000 and in fact gained momentum as the year progressed. C&F and TIG experienced price increases of 10-15% in many lines and our expectation is that this will continue in 2001 as the industry very much needs it (note you don't necessarily get what you need!). We believe this cycle may have some "shelf life" because:

1) Retrocessional rates (i.e. the rates reinsurers pay for their reinsurance) have increased dramatically because of the drying up of capacity in Australia and significant losses at Lloyd's.

2) The worldwide reinsurance industry is running at high combined ratios.

3) The 25 leading U.S. property and casualty insurers have earned a depressed average return on equity of 8.8% over the past 12 years. This has resulted in (a) very significant consolidation in the industry – most large commercial line insurers are now in strong hands (read focused on return) – and (b) management turnover at the top of those remaining independent insurers who may have still focused on market share.

4) A number of insurers have experienced well-publicized serious financial difficulties. This has resulted in rating agencies being very pessimistic on the industry and access to capital from banks and capital markets being significantly reduced.

5) Reserve redundancies in the past five years, particularly from U.S. auto, are over. The industry has no place to hide and, in fact, reserve deficiencies from the soft markets of 1997-99 are clearly becoming more evident. Note – Fairfax's indemnification and other protection obtained on the purchase of C&F and TIG relates to two of those three years.

Rating agency pessimism on the U.S. P&C industry, combined with their expectation that it would take us much longer to turn around the operating performance of our recent purchases, C&F and TIG, unfortunately resulted in Fairfax's debt ratings being downgraded.

Here are some relevant statistics on our financial position as of December 31 in the past eight years.

	1993	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Holding company cash and marketable securities *($ millions)*	4.1	7.2	70.4	101.1	207.1	305.4	712.7	545.4
Net debt/equity	47%	56%	48%	41%	37%	51%	34%	35%
Long term bank lines *($ millions)*	75	105	215	600	1,000	1,300	1,300	1,265
Unused indemnifications*	26	56	33	280	334	957	673	463
Swiss Re protection**	–	–	–	–	–	–	1,087	715
Negative goodwill	–	–	–	111.7	184.1	227.8	234.2	129.8
S&P debt rating	BBB	BBB	BBB+	BBB+	BBB+	BBB+	BBB+	BBB–

* *Against pre-acquisition reserve development and unrecoverable reinsurance, excluding TRG; see page 79 in the MD&A.*

** *See pages 56 and 57 in the MD&A.*

As you can see from the table above, our financial position in terms of cash and marketable securities in the holding company, net debt/equity, long term bank lines, balance sheet protection provided by indemnifications and our corporate insurance cover from Swiss Re, and negative goodwill have never been stronger than in 1999/2000.

So while we have expanded significantly in the past five years, it has not been at the expense of our financial position. As it has always been our objective to maintain a very strong financial position, the downgrade in our debt ratings by Standard & Poor's was very disappointing. We firmly believe that these ratings do not reflect our underlying financial strength on an absolute or relative basis. It is our expectation that improved performance by C&F and TIG will result in our ratings rising to levels that more appropriately reflect our underlying financial strength.

The problems of the P&C industry plus concerns about our ratings have increased our bond spreads (and those of other industry participants) to record levels. The spreads on bonds that we issued at 150-200 basis points over treasuries, depending on term, have now more than doubled. Who said the markets are always rational?

Having discussed our debt ratings, I am happy to report that we were able to maintain C&F, TIG and Odyssey Re's A.M. Best ratings at the "A" level (A- for C&F) – which are very important in the U.S. P&C insurance industry.

C&F and TIG's focus on re-underwriting their books of business to concentrate on underwriting profitability resulted in negative cash flow at their level. Combined with rising interest rates for most of the year (resulting in unrealized bond losses), 2000 provided Fairfax and HWIC management with some excellent experience which we could have done without! Our small team reacted well again.

Speaking of our small team, we are very fortunate to have a "few good men and women" who, with no egos, are experienced in monitoring operations and reacting quickly to opportunities while focusing on downside protection from worst case events. The outstanding team we have at head office in Toronto includes Trevor Ambridge, Sam Chan, Francis Chou, Jean Cloutier, Brad Martin, Elizabeth Murphy, Rick Salsberg, Ron Schokking and John Varnell, and at Fairfax Inc. includes Jim Dowd, Scott Galiardo and Jim Migliorini in New York and Cindy Crandall in Dallas.

During the year, C&F purchased Seneca Insurance as a bolt-on acquisition for US$65 million. Doug Libby, who has run Seneca for the past ten years, has had an excellent track record with combined ratios below 100% for the past five years, together with consistent reserve redundancies over the past ten years. Bruce Esselborn and Nick Antonopoulos (the President of C&F) knew Doug Libby and Seneca as they were former directors of the company. Seneca, which is headquartered in Manhattan, will serve as the New York City office for C&F. The purchase price of US$65 million was a small premium to underlying book value of US$59 million. We welcome Doug Libby and all the employees of Seneca to the Fairfax group and look forward to their significant contributions to our group.

As you know, in 1999 we purchased approximately 38% of Zenith National Insurance Corp. run by Stanley Zax for the past 22 years. As a bonus, Stanley introduced us to Brian Caudle who heads the Advent Group which controls three syndicates at Lloyd's of London with a combined underwriting capacity of some £250 million. Brian has one of the best track records at Lloyd's spanning some 25 years. We sold Kingsmead Agencies, a Lloyd's agency we inherited with the purchase of TIG, for 22% of Advent. We are delighted to be long term shareholders of Advent along with Brian Caudle. As an aside, insurance companies specializing in worker's compensation in California have fallen like dominoes in 1999/2000. Zenith is one of the few specialty worker's compensation insurance company survivors.

In its second year of operation, Hub International, under Chairman Marty Hughes and President Rick Gulliver, ably assisted by John Varnell of Fairfax, completed several important acquisitions in the United States and Canada. Hub continued to improve profitability and operating free cash flow in 2000 and continues to respond to opportunities for expansion in the United States and Canada. On January 20, 2001, Hub announced its agreement to purchase the Kaye Group, a NASDAQ listed brokerage group, for approximately US$119 million. Hub has accomplished a great deal in a short period of time and is a strategic investment for Fairfax. For more information, please read Hub International's Annual Report which is posted on Hub's website *www.hubinternational.com* in the Investor Relations section under "Financial Reports".

After about five years of watching the developments in the state owned property and casualty industry in India, Fairfax was able to announce a joint venture with ICICI, a dynamic Indian commercial bank, as the Indian government decided to open up the industry to foreign investment for the first time since 1972. The joint venture, called ICICI-Lombard, gives us a maximum equity interest of 26% (under current law) for a capital investment of $10 million. This project required a significant commitment from a Fairfax-wide team to complete. Congratulations to Chandran Ratnaswami, Paul Fink, Jim Dowd, Jim Migliorini, Byron Messier, Kim Tan and many others for providing this long term opportunity to Fairfax. We expect to be writing policies this year.

During the year, the principals of HWIC decided to discontinue management of external funds (primarily pension funds) and focus on the management of Fairfax funds alone. HWIC has been managing pension funds and some individual funds for the better part of 16 years. For the record (and for the last time), results over that time period have been as follows:

Annualized rates of return (%)
16 years ended December 31, 2000

	1985 – 2000
Canadian Equities	13.3
TSE300	11.5
U.S. Equities	19.7
S&P500	17.9
Canadian Bonds	11.7
SM Index	10.8
Balanced Fund	13.8

Source: Representative balanced fund managed by HWIC for 16 years

These pension fund results rank HWIC among the top fund managers in Canada and the United States. The Value Fund, an HWIC managed pooled fund for individuals, compounded at 13.6% annually since inception in June 30, 1985 (versus 10.9% for the TSE300).

The compensation arrangements with the principals of HWIC were also changed from the arrangements arrived at in 1992 when HWIC was purchased by Fairfax. Going forward, the principals will have a fixed salary and a discretionary bonus based on performance as opposed to the participation in the profit sharing pools that has prevailed over the past 8 years. These new arrangements were concluded to the satisfaction of all the principals.

This brings me to my own compensation arrangements. For many years now I have felt that as a controlling shareholder involved in the management of the company, my compensation should be closely linked to all shareholders. So from 2000 onwards, my compensation will be a fixed salary of $600,000 with no bonuses. This compensation will not increase annually, and if 1999/2000 is repeated, could decrease!! However, to make sure that my family survives, Fairfax will examine instituting a dividend – yes, a modest dividend – in 2001 at an annual rate of $1 or $2 per share. Going forward, the only difference between me and you, our shareholders, will be my salary of $600,000 – which based on recent performance, many of you may think is too high! While the payment of a modest dividend results in double taxation to

most of you and is not as economically efficient as retaining all our profits and compounding at high rates of return (as we have done for the past 15 years), this was the only way I could think of to bring my compensation in line with your interests. While I may have generated some sympathy from you, I should add that I continue to travel well – in fact a little better recently because we sold our Lear Jet for US$2.5 million (cost US$1.8 million) and purchased a Gulfstream II for US$6.2 million.

Below, we update the table on intrinsic value and stock prices that we first presented last year.

	INTRINSIC VALUE		**STOCK PRICE**
	ROE %	**% Change in Book Value* per Share**	**% Change in Stock Price**
1986	25.4	+ 183	+292
1987	31.3	+ 41	– 3
1988	21.2	+ 22	+ 21
1989	20.3	+ 23	+ 25
1990	23.0	+ 39	– 41
1991	21.3	+ 24	+ 93
1992	7.7	+ 11	+ 18
1993	20.3	+ 48	+ 145
1994	12.1	+ 25	+ 9
1995	20.1	+ 22	+ 46
1996	21.4	+ 63	+ 196
1997	20.4	+ 44	+ 10
1998	20.1	+ 47	+ 69
1999	4.3	+ 26	– 55
2000	4.1	+ 5	– 7
1985-2000	**18.2%**	**+ 37%**	**+ 33%**

** First measure of intrinsic value as discussed in our 1997 Annual Report*

The table was discussed in great detail last year. I'll spare you that this year! Suffice to say that while statistically, intrinsic value did not increase much last year (book value per share increased 5% while investments per share dropped 10% in 2000), the managements of our insurance and reinsurance businesses have significantly increased the long term value of our businesses, as should become evident in the next few years. We did a good job of masking the improvement in 2000!

Of course, the low returns on equity resulted in our stock price continuing to be weak in 2000. Note, however, that over the long term, stock prices and book values have compounded at approximately comparable rates – depending on the year, book value or stock price is slightly ahead!

As discussed in our 1999 Annual Report, the low stock price for Fairfax allowed us to repurchase some of our shares – 325,309 shares at an average price of $183.47 per share in 2000. This means that in 1999/2000 we retired 1,031,412 shares at an average price of $258.35 per share. As discussed last year, our policy of not buying back our shares at the expense of our financial position prevented us from buying back more shares of Fairfax in 2000.

As far as future acquisitions are concerned, other than small bolt-on acquisitions like Seneca, I want to reiterate our statements from our 1999 Annual Report.

1) We do not plan to make any significant acquisition until our group combined ratio drops to 105% and is clearly headed lower.

2) We do not plan to issue our stock at prices less than $500 per share to buy another company – however attractive it may be.

Our guiding principles (again set out in the Appendix) were tested in 2000 and, I'm happy to say, survived intact. These guiding principles are firmly entrenched in all of our companies and are a major source of our long term strength.

While internet stocks collapsed last year (more later), under Sam Chan's leadership we initiated a Fairfax intranet that links all of our operations and provides a free flow of information across all our subsidiaries. Also, we are building our e-commerce platform and have two products developed from end-to-end on the internet. In both these ventures, we have benefited greatly from the committed services of DK Matai and mi2g. We look forward to further development in 2001.

The table below shows the sources of our net earnings with Lindsey Morden equity accounted.

	2000 *($000)*	**1999** *($000)*
Underwriting		
Insurance		
Canada	(13,025)	(96,570)
U.S.	(588,408)	(273,131)
Reinsurance	(97,367)	(247,364)
Interest and dividends	593,512	711,475
Insurance and reinsurance earnings (loss) before realized gains	(105,288)	94,410
Realized gains	378,305	121,670
Runoff	43,303	(54,231)
Claims adjusting (Fairfax portion)	(15,387)	2,784
Interest expense	(164,743)	(129,262)
Goodwill and other amortization	(5,362)	(5,067)
Negative goodwill	99,113	–
Swiss Re premium	(167,196)	(35,312)
Kingsmead losses	(32,963)	–
Restructuring	(16,402)	–
Corporate overhead and other	(22,966)	(20,174)
Pre-tax income (loss)	(12,586)	(25,182)
Less (add): taxes	(173,306)	(158,023)
Less: non-controlling interests	23,279	8,633
Net earnings	137,441	124,208

The table shows you the results from our insurance (underwriting and investments), runoff and non-insurance operations. *In this report, insurance operations include reinsurance operations.* Runoff operations include TRG, Odyssey Re Stockholm and Sphere Drake. Claims adjusting shows you our share of Lindsey Morden's after-tax income. Goodwill and other amortization includes Hamblin Watsa goodwill ($1.4 million) and amortization from Ranger and Seneca. The corporate overhead expense is net of HWIC's pre-tax income and interest income on Fairfax's cash balances and, in 1999, includes one time expenses associated with our acquisitions. The premium payable to Swiss Re of $167.2 million is shown separately and discussed in the MD&A on pages 56 and 57. Also shown separately are realized gains so that you can better understand our earnings from our operating companies. Also, please note the unaudited financial statements of our combined insurance and reinsurance operations and of Fairfax with Lindsey Morden equity accounted, as well as Lindsey Morden's financial statements, shown on pages 92 to 97.

The continued very large underwriting losses were due to TIG ($342.9 million), C&F ($197.9 million), Odyssey Re Group ($97.4 million), Ranger ($47.6 million) and the Canadian insurance companies ($13.0 million). Reserve development for the 1999 accident year reflected in those underwriting losses cost us $164.4 million because of TIG ($99.4 million), C&F ($69.8 million), Odyssey Re Group ($5.4 million) and Ranger ($4.8 million), offset by the Canadian insurance companies' net redundancies ($15.0 million). As we have taken this development into account in our 2000 loss ratio picks and because of higher rates in the U.S., we do not expect this negative reserve development to be repeated in 2001.

Interest and dividends declined by $118.0 million in 2000 to $593.5 million because of a significant decrease in the investment portfolio of the insurance and reinsurance companies of $2.4 billion. The major reason for the decrease in the investment portfolios is the re-underwriting that took place in 2000 (please see page 82). With higher premiums and increased volumes, this should begin to reverse itself in 2001.

Last year, we discussed Fairfax's purchase of a US$1 billion adverse loss development reinsurance cover (for 1998 and prior claims and unrecoverable reinsurance) from an AAA rated subsidiary of Swiss Re Group. In 2000, we ceded US$272.3 million to the cover for a cumulative total of US$523.6 million. The adverse development arose mainly from TIG (US$150.9 million), C&F (US$18.1 million) and our runoff subsidiaries, mainly Sphere Drake (US$98.6 million). The cost for this cover in 2000 is the Swiss Re premium shown of $167.2 million (more on pages 56 and 57).

Our runoff operations (TRG, Odyssey Re Stockholm and Sphere Drake) earned us $43.3 million, mainly because of higher investment income and realized gains on investments on the runoff portfolio, offset by losses from Sphere Drake that resulted from adverse development largely due to the 1999 European storms.

The adverse development in the 1999 underwriting year ($164.4 million), the cost of protection (the Swiss Re premium) for 1998 and prior reserve development ($167.2 million), restructuring costs ($16.4 million) discussed in the MD&A on page 57, and Kingsmead losses ($33.0 million) discussed in the MD&A on page 57, cost Fairfax a total of $381.0 million

pre-tax, offset by a reduction in the amortization period of negative goodwill of $79.2 million, for a net pre-tax cost of $301.8 million.

In spite of substantial realized gains in 2000, the very significant underwriting losses resulted in a pre-tax loss again in 2000 – similar to the one in 1999. We recorded a tax recovery of $173.3 million because our underwriting losses are in high tax jurisdictions while other income was earned in areas with lower tax rates.

Insurance operations

The table below shows the combined ratios of each of our companies for 2000 and 1999. While the group combined ratio in 2000 was worse than in 1999, the underlying operations are very much improved – but the figures mask the improvement. However, there is no question that I was too optimistic in my report to you last year and was wrong. As I said earlier, I underestimated the soft markets in the U.S. of 1998 and 1999, the effects of reserve deficiencies in these years on our results in 2000 and finally, the enormity of turning around these operations in the midst of these soft markets. While 1999 was impacted by catastrophes, 2000 was impacted by reserve development from the 1999 underwriting year. Excluding this reserve development, the group's combined ratio was 112.6%.

	Underwriting loss	**Combined ratio**	
	2000	**2000**	**1999**
	($ millions)	%	%
Commonwealth	3.7	105.5	186.7
Federated	4.6	106.5	113.8
Lombard	2.7	100.6	105.0
Markel	2.0	103.4	104.6
Total Canadian insurance	*13.0*	*102.0*	*114.9*
Ranger	47.6	146.3	149.4
C&F	197.9	124.3	120.9
TIG	345.9	123.1	105.6
Total U.S. insurance	*588.4*	*124.3*	*111.8*
Odyssey Re Group*	97.4	108.0	119.4
Total reinsurance	*97.4*	*108.0*	*119.4*
Total	*698.8*	*116.3*	*114.6*

** including CTR*

From the table you can see that our Canadian operations, while not yet below 100% in total, are well on their way to achieving that objective. Our U.S. operations, particularly TIG and C&F, were significantly impacted by reserve development from the 1999 year. Excluding this development, the combined ratio for TIG was 116.4% and C&F 116.3%. Given the re-underwriting that was done in both companies and the price increases achieved, the

combined ratios for both companies should decline significantly in 2001 but not to our targeted level of 100% – yet!

For all our U.S. insurance business, price increases and improved policy conditions were applied gradually over the year, with price increases accelerating to their highest levels in the fourth quarter. While these measures are partially reflected in this year's underwriting results, their full impact will not be realized until 2001.

Commonwealth, with its significant U.S. property and oil and gas business, bounced back in 2000 with a combined ratio of 105.5% from its record high ratio of 186.7% in 1999. Gross premiums written increased by 25% over the prior year to $213.0 million while net premiums written increased by 74% to $80.0 million.

Commonwealth's expense ratio dropped by 9.2 percentage points to 25.1% as underwriting expenses declined by 9% to $15.6 million. Commonwealth should have an excellent year in 2001 barring catastrophes. In 2000, the company earned $6.8 million after tax compared to a loss of $12.0 million in 1999. During the year, John Watson passed the CEO title to Ron Schwab but will continue as Chairman of the company. During his tenure as CEO of Commonwealth, John Watson took the company from $68.4 million in gross premiums written in 1977 to $213.0 million gross premiums written in 2000 with a cumulative combined ratio of 98.3% (excluding 1999). Cumulative after-tax income earned during John Watson's tenure was more than $182 million. During this period, Commonwealth's shareholders' equity increased from $3.3 million in 1977 to $146.9 million at the end of 2000, after net dividends paid of $70.3 million. Commonwealth has been a great investment for Fairfax and on behalf of all our shareholders, we thank John for his superb performance. John will continue to help Fairfax in a variety of ways.

Federated, under John Paisley's leadership, improved its combined ratio to 106.5% in 2000 from 113.8% in 1999 (including the life company). The reason Federated did not achieve its 100% goal was again due to a high frequency of large "individual risk" losses. For example, in 2000, Federated had its largest property loss ever, which was a total fire loss of an equipment dealership with an excellent twelve year relationship with the company. This is the inherent risk in our business! John Paisley has achieved a 10% rate increase during 2000, has continued re-underwriting the book of business including exiting the fertilizer dealer market, and with a high 88% retention ratio expects to have a combined ratio below 100% in 2001. Federated's property and casualty gross premiums written increased by 2% to $65.0 million while its net premiums written increased by 1% to $56.0 million. Federated maintained its expense ratio below 30%. It earned $0.9 million after tax in 2000 versus $2.3 million in 1999 mainly due to reduced realized gains. Federated Life had gross premiums written of $18.5 million, an increase of 8% from 1999. Net premiums written increased by 4% to $15.0 million. Profit after tax was $1.5 million, almost twice that earned in 1999 because of reduced expenses, lower loss ratios and higher investment income. Federated Life will be changing its name so as to access new distribution channels, markets and partners.

Lombard's combined ratio improved significantly to 100.6% due to strict underwriting discipline (resulting in a 38% drop in new business written) combined with reserve redundancies from past years. During the year, Byron Messier and his management team

undertook a company-wide focus to reduce underwriting and claims leakage (not charging enough for your services and paying too much for claims). Together with a continued focus on underwriting profitability, Byron expects to achieve a combined ratio below 100% in 2001. In late 2000, Lombard formed a strategic partnership with CARP (Canadian Association of Retired Persons) as sole supplier of property and casualty products through CARP to Canadians over the age of 50. I'm a member also but definitely not retired!! This strategic partnership will help Lombard's Privilege 50 program which had net premiums of $30.8 million (versus $29.8 million in 1999) with a combined ratio of 101.4% (115.0% in 1999).

Lombard's gross premiums written (including cessions to CRC (Bermuda)) were down 2% to $501.5 million in 2000 while net premiums written (on the same basis) were down 5% to $444.7 million. Net income after taxes increased to $41.2 million from $29.7 million in 1999.

Falcon, led by Kenneth Kwok, continued to write very little business due to soft markets in 2000. Falcon wrote net premiums of HK$66.1 million (Cdn$12.6 million) in 2000 versus HK$60.5 million (Cdn$12.1 million) in 1999. With a start-up expense ratio of 86%, Falcon had a combined ratio of 173% in 2000 versus 165% in 1999. With a hardening market at year-end 2000 and planned expense reductions, Falcon expects to get its combined ratio below 120% in 2001. Falcon lost HK$29.1 million (Cdn$6.7 million) in 2000.

In what was another terrible year for most writers of long-haul trucking insurance in Canada and the U.S., Markel, under Mark Ram's management, once again delivered a solid combined ratio of 103.4% in 2000. With its proven leadership position in the trucking insurance marketplace, its experienced team and strong reserving practices, Markel is well-positioned to achieve its 100% combined ratio goal in 2001. Over the past six years under current management, Markel has outperformed both the long-haul trucking insurance marketplace and the general property and casualty industry in Canada, writing a total of $500 million of business with an average combined ratio of 103.9%. In 2001, Markel will be celebrating its 50th anniversary serving the Canadian trucking industry. We're certainly looking forward to the next 50 under Mark's leadership!! Gross premiums written in 2000 increased by 16% to $89 million while net premiums written rose by 19% to $65 million. Net income after taxes was down $4.5 million to $1.1 million due primarily to lower investment returns.

The downsizing of Ranger continued in 2000. The company's gross written premiums declined to US$78.0 million from US$137.6 million in 1999, and its net written premiums to US$47.0 million from US$88.3 million – both down about 50% from 1999. While the all-in combined ratio was 146.3%, excluding discontinued lines the combined ratio was 121.6%. In spite of an expense reduction of 31% to US$32.6 million in 2000, Ranger has an extremely high expense ratio (including commissions) of 50% which we are working with Phil Broughton to reduce. Ranger, like other U.S. companies, has had significant rate increases recently – and we wait patiently for improved results. Ranger had a pre-tax loss of US$19.1 million (before stop loss) versus US$25.6 million in 1999 (before stop loss). Ranger's management continues to take the actions necessary to improve results – but no forecasts from me for 2001!

Our confidence in Bruce Esselborn was not misplaced. Bruce, Nick, Mary Jane Robertson (C&F's CFO) and the new management team are well on their way to restoring the excellent underwriting reputation that C&F once had many decades ago. As shareholders, you will be

extremely pleased at the huge asset that this team is expected to develop for Fairfax over the next few years. Bruce is very much focused on underwriting profitability and is shooting for "a nickel on the dollar" in terms of underwriting profits.

Here's what the C&F team has done in 2000:

1) The management team was strengthened significantly, particularly with underwriting talent.

2) Underwriting focus and discipline was restored.

3) Pricing (renewal pricing up 11.9% in the fourth quarter) and policy terms were improved.

4) Unprofitable business was shed.

5) Commissions were reduced by almost 3 percentage points.

6) Operating expenses were cut by US$18.7 million.

7) Product offerings were expanded (D&O and Surety, for example).

8) Seneca and Transnational (a surplus lines shell renamed Crum & Forster Specialty) were acquired.

9) The agency force was refreshed and expanded with 277 appointments and 32 terminations.

These significant actions were masked by the high combined ratio of 124.3% that C&F had for 2000. The trend in combined ratios and renewal rate increases is shown below.

	2000			
	First quarter	**Second quarter**	**Third quarter**	**Fourth quarter**
Renewal rate increase	10.6%	10.2%	13.0%	11.9%
Combined ratio (accident year)	133.3%	123.9%	119.9%	111.5%

In 2000, C&F's gross premiums written declined 9% to US$679.8 million while net premiums written declined 15% to US$506.5 million. The retention ratio of 51% during 2000 reflected the re-underwriting done during the year. Excluding Seneca, new business premium in 2000 was up 18% to US$170.7 million. Loss after taxes in 2000 was US$15.5 million.

C&F had a strong month in January 2001 with gross premiums written of US$105.5 million (versus US$55.7 million in January 2000), not counting US$11.4 million from the 2000 acquisition of Seneca.

The full force of management's actions will be felt in large part in 2001. More significantly, we expect that over the next few years, Crum & Forster will become one of the excellent underwriting focused insurance companies in the U.S.

TIG Specialty Insurance had an extremely difficult year in 2000 with a combined ratio of 123.1% versus a target ratio of 105%. This was mainly due to a significant underestimation of the 1999 accident year loss and LAE ratio. When the 2000 plan was created, TIG thought that

the 1999 underwriting year was 18 points better than it actually turned out to be. This was a result of the very soft market in 1999 generally, mentioned earlier, together with significant negative development taking place in most of its business segments including Workers' Compensation, Excess Casualty, Non-Standard Auto and Sports and Leisure. This shortfall was accentuated by very poor results in an expanding non-standard auto book as well as some drag from clean-up activities of the past. As TIG distributes its products through managing general agents (MGAs), pricing and claims management initiatives took longer to take hold.

As at C&F, Courtney Smith and his management team have made very significant improvements in TIG's operations, which have been masked by the very poor results in 2000. Some of these improvements were:

1) The management team was strengthened significantly, particularly in claims and actuarial.

2) A management reporting and control system is now in place by customer group.

3) Key producer contracts were renegotiated to provide more pricing, underwriting and claims control.

4) Pricing (renewal pricing up 13% in the fourth quarter) and policy terms were improved.

5) Unprofitable distribution relationships were terminated.

6) Third party administrator relationships on 24 programs were terminated. Those claims are now being handled in-house. Improvements in the quality of claims handling at TIG should significantly reduce claims costs in the future.

7) Operating expenses were cut by US$5.6 million.

8) Commission rates were reduced for many underperforming programs and more closely linked to underwriting performance.

9) The Special Risk Operations Unit (US$41.8 million in net premiums written) and Hawaii (US$54.8 million in net premiums written) achieved combined ratios below 100%.

A very strong focus on strict underwriting (in spite of the MGA relationships), higher price increases, a changing mix of business and much improved claims management should yield substantially improved results in 2001. TIG remains committed to achieving an underwriting profit in 2002.

TIG's gross premiums written in 2000 were US$1,379.4 million versus US$1,350.0 million in 1999. Net premiums written increased 2% to US$978.6 million and the combined ratio for 2000 was 116.4% (excluding 1999 reserve strengthening) versus a restated combined ratio for 1999 of 118.4%. Net loss after taxes for 2000 was US$125.9 million versus US$24 million for nine months in 1999.

Under Andy Barnard's leadership, Odyssey Re Group consolidated its global franchise via a branch network with offices all over the world. The company operates with a capital base of over US$1 billion and had a worldwide gross premium base of US$986 million. Net premiums

written worldwide decreased by 3% in 2000 to US$787.5 million from US$814.9 million in 1999. The combined ratio for 2000 was 108.0%. While these results did not achieve our objective of 104% for 2000, we expect that Andy and Odyssey Re Group outperformed the reinsurance industry's 2000 combined ratio. Given the increase in underlying insurance rates and the higher reinsurance rates experienced in January 2001, Odyssey Re Group is well positioned to drop its combined ratios to the 103%-104% area in 2001. Odyssey Re Group earned US$110.4 million after taxes in 2000 versus a loss of US$48.0 million in 1999.

With the exception of TIG, our insurance companies continue to be well capitalized as shown on page 85. Important information for you to review when you look at insurance companies is the disclosure regarding their claims reserves. As you know, it is our policy to have our reserves set at a level that results in redundancies in future years. How did we do in 2000? We provide extensive disclosure on our claims reserves beginning on page 62 in the MD&A. In Canada, our insurance companies had redundancies of $17.1 million in 2000 while in the U.S., C&F, TIG and Ranger had an aggregate deficiency of US$284.8 million. Odyssey Re Group had an aggregate deficiency of US$62.1 million. The reasons for these deficiencies, including the softness of the insurance market in 1999, are discussed on pages 68 to 72 in the MD&A. We continue to work to get our U.S. and reinsurance reserves to the standards of our Canadian reserves.

During the year, the RiverStone Group (TRG), led by Mike Coutu and Dennis Gibbs, took over the runoff of all discontinued operations across the Fairfax group. As well, they became responsible for:

a) settling all latent claims including asbestos, pollution and other hazards. Also, all construction defect claims, originating mainly from California, were centralized under RiverStone;

b) the management of reinsurance recoverables across the group, particularly ones in dispute or with financial problems. They are also responsible for all commutations as well as the security list for ongoing reinsurers; and

c) the management of any significant lawsuits, including the personal accident and worker's compensation dispute described in last year's Annual Report.

TRG has been a tremendous resource for us and the 160 people that they have at Manchester, New Hampshire are a welcome addition to the Fairfax family. Please review the MD&A for more details on our runoff operations.

Claims adjusting

2000 was a very poor year for Lindsey Morden. Revenue dropped 15% to $376.9 million in 2000, while the company lost $23.1 million after taxes – the largest loss in its history. The losses were mainly due to poor results in North America and the United Kingdom. Free cash flow was negative $7.7 million ($0.64 per share) compared to a positive $25.6 million ($2.17 per share) in 1999. These poor results resulted in the elimination of the dividend in early 2001.

In normal succession planning, Ferd Roibas was made President and Chief Operating Officer as of September 14, 2000 while Ken Polley became Chairman of the Board replacing me. Ken has

retired as CEO after almost 35 years with Lindsey Morden, and on an interim basis Francis Chou has become Chief Executive Officer. Ken's dedication to Lindsey Morden was legendary, and he was at the helm as it developed from a purely Canadian operation, with annual revenue of $31 million when it went public in 1987, into one of the few global claims management companies, with revenue of $377 million last year. During the year, Karen Murphy, former Chief Financial Officer of a large property and casualty insurance company in Canada, joined Lindsey Morden as Chief Financial Officer. Peter Fritze, from Torys, joined Lindsey Morden as Senior Vice President, Corporate Affairs. Farid Nagji was promoted to President, U.S. Operations on Don Smith's retirement. This team has the urgent task of returning Lindsey Morden to profitability immediately and then capitalizing on its opportunities as one of the few global adjusters in the world.

To maintain Lindsey Morden's financial strength, the company did a $20 million rights issue (at $8.50 per share) in late 2000 back-stopped by Fairfax. The issue was almost totally subscribed by Fairfax. Only a year ago, I happily reported to you that we bought 0.8 million shares at $20.00 per share!! For more information on Lindsey Morden, pleaser refer to their annual report that you can get from their website (*www.cunninghamlindsey.com*).

Financial position

As mentioned in previous Annual Reports, we feel our unaudited balance sheet with Lindsey Morden equity accounted (shown on page 94) is the best way to understand our financial position. Below, we show you our year-end financial position compared to the end of 1999.

	2000	**1999**
	($ millions)	
Cash and marketable securities	545.4	712.7
Long term debt	1,851.4	1,959.0
Net debt	1,306.0	1,246.3
Common shareholders' equity	3,180.3	3,116.0
Preferred securities	592.0	578.8
Total equity	3,772.3	3,694.8
Net debt/equity	**35%**	**34%**
Net debt/total capital	**26%**	**25%**

As shown, there was very little change in our financial position during the year 2000. Similar to only once before (1990), shareholders' equity did not increase significantly in 2000. Our net debt to equity and net debt to total capital ratios increased a little because of a reduction in cash and marketable securities in the holding company and the effect of the lower Canadian dollar on U.S. dollar denominated debt.

As insurance company balance sheets can be complicated, this year we wanted to review for you on a line-by-line basis all of the major assets and liabilities on our balance sheet. To spare some of you less-detailed types, this commentary is included in the MD&A beginning on page 60. From this review, you can see why we feel our balance sheet is very sound and conservatively accounts for our assets and liabilities.

Due to our low profits in the last two years, our financial position at year-end 2000 is not as strong as it was last year. However, it continues to be strong for the following reasons:

1) We have no bank debt. Our debt consists of seven public debentures with a long term to maturity (3 years to 37 years) and low interest rates (6.875% to 8.30%), two small debentures issued to vendors, and certain debt assumed with the acquisition of TIG. All of the public debentures were issued under a single trust indenture containing no restrictive covenants, thus providing us with great flexibility. We have swapped the fixed interest rates on all of the public debentures (with the exception of the ones maturing in 2003) into floating rates (or as noted in the next sentence), saving approximately 69 basis points on average currently. We swapped US$125 million of our 7.375% debentures due April 15, 2018 for Japanese yen denominated debt of the same maturity with a fixed rate of 3.48% per annum (see note 5 to the consolidated financial statements). Including the amortization of the unrealized foreign exchange loss on this swap over the remaining term to maturity, the effective rate for 2000 was 5.081% per annum, still below the 7.375% coupon rate of the swapped debentures.

2) We have unsecured, committed, long term bank lines in excess of $1.2 billion with excellent covenants. These bank lines are with five Canadian, five U.S. and three European banks. Please see the details on page 87 in the MD&A.

3) Our net long term debt is less than three times our normalized earnings base (you have yet to see it!!). Also, our earnings base is well diversified among many insurance and reinsurance companies and Lindsey Morden and geographically from Canadian, U.S. and international sources of income.

4) Available cash flow at the Fairfax (holding company) level from dividends, management fees and interest covers our administrative and interest expenses and preferred dividends by about two times. This is based on normal dividend payouts from our insurance companies, which are much less than our maximum dividend-paying capacity. Note Fairfax's combined holding company income statement on page 99.

5) With more than $500 million in cash and marketable securities in the holding company at year-end, we could pay our administrative and interest expenses and preferred dividends at Fairfax, with *no* dividends from any of our insurance or reinsurance companies, for approximately two years – our management holding company survival ratio! This is less than our target of three to four years.

6) As discussed on page 85 in the MD&A, all our insurance and reinsurance companies (with the exception of TIG) are well capitalized with significant solvency margins in excess of mandated regulatory levels.

7) Our foreign exchange exposure from our U.S. insurance and reinsurance companies has been fully hedged by our U.S. dollar debenture issues and the purchase of foreign exchange contracts.

Investments

Finally, equity markets in the U.S. declined in 2000, with the S&P500 down 10% and the NASDAQ down 39%. The TSE300 was up slightly (6%) while U.S. long treasuries increased significantly as long term interest rates dropped from 6½% to 5½%.

The unrealized gains (losses) as of year-end are as follows:

	2000	**1999**
	($ millions)	
Bonds	(463.3)	(1,241.0)
Preferred stocks	(0.7)	(1.3)
Common stocks	(25.2)	15.7
	(489.2)	(1,226.6)

We realized $382.8 million in gains in 2000 – more than triple what we realized in 1999 and almost equal to the record realized gains in 1998 of $441 million. Unrealized bond losses declined significantly from $1,241.0 million as of December 31, 1999 to $463.3 million as of December 31, 2000 and continued to decline in 2001 to about $220 million as of February 28, primarily reflecting declining long term interest rates. Assuming corporate spreads remain at their current levels (they deteriorated in 2000), our unrealized bond losses would disappear at long term interest rates of 5% and would become an $800 million unrealized gain at long term interest rates of 4%.

We are relieved that our comment to you last year, that unrealized bond losses do not impact our regulatory capital in the U.S. and will not be realized (as we can hold these bonds to maturity or until interest rates drop), was justified only one year later. However, not realizing significant bond losses at C&F and TIG, in a negative cash flow environment resulting from declining premiums (because of very soft industry pricing), was much more difficult than we expected and required the talents of all of our people, including HWIC, Fairfax and the financial staff at both companies.

Shown below is our record of realized gains since inception.

	1986	1987	1988	1989	1990	1991	1992	1993
Investment portfolio (average) ($ millions)	64.2	109.8	130.8	135.7	237.9	338.5	366.5	418.2
Realized gains								
– ($ millions)	1.0	9.2	7.8	15.5	2.3	(4.5)	3.4	27.8
– % of portfolio	**1.6**	**8.4**	**6.0**	**11.4**	**1.0**	**(1.3)**	**0.9**	**6.6**
Unrealized gains (losses) (at year-end)								
– ($ millions)	1.1	(6.9)	5.2	(1.1)	(34.0)	(6.1)	(17.3)	11.5
– % of portfolio	1.2	(5.6)	3.8	(0.8)	(10.1)	(1.8)	(4.4)	1.4

	1994	1995	1996	1997	1998	1999	2000
Investment portfolio (average) ($ millions)	852.0	1,608.1	2,548.1	4,584.6	8,877.5	14,684.0	16,306.2
Realized gains							
– ($ millions)	20.0	71.9	131.3	206.8	440.8	121.7	382.8
– % of portfolio	**2.3**	**4.5**	**5.2**	**4.5**	**5.0**	**0.8**	**2.3**
Unrealized gains (losses) (at year-end)							
– ($ millions)	(30.9)	14.5	127.2	122.7	5.5	(1,226.6)	(489.2)
– % of portfolio	(2.0)	(0.9)	8.7	2.1	0.0	(7.0)	(3.2)

You will note the following from the table above:

1. Realized gains have been significant over the years with no predictability whatsoever. However, we have earned realized gains in some years in excess of 5% of the portfolio. While unable to predict when, we think this is still a very realistic possibility for Fairfax even with a $15 billion investment portfolio.

2. Unrealized gains/losses have no predictability whatsoever in terms of future realized gains.

3. Cumulative realized gains since we began in 1985 have been $1.4 billion. With a much larger portfolio to work with and the same investment team (a little older now), we expect to earn significant realized gains in the future. Discontinuing management of pension and individual portfolios allows HWIC to focus even more on this objective.

As discussed in our 1998 Annual Report, the possibilities for realized gains continue to be:

1. We have approximately $5.5 billion invested in "put" bonds (described in our 1997 Annual Report) that have significant upside potential if interest rates decline (limited downside if interest rates increase). As a result of these put bonds, our bond portfolio has an average maturity of 8 years to the put date and 18 years to the long date.

2. We continue to have US$800 million in S&P500 Index puts at an average level of 1,277, which can result in large profits if the U.S. stock market declines significantly. Since we began buying these puts three years ago, they have cost us US$163 million, of which US$115 million has been written off at December 31, 2000.

3. We have $885 million invested in common stock on which we expect to make significant gains.

Gross realized gains in 2000 totaled $488.5 million. After realized losses of $12.4 million and increased provisions of $93.3 million (primarily on the S&P500 Index put contracts and on a preferred stock inherited on an acquisition), net realized gains were $382.8 million. Net gains from fixed income securities were $22.4 million while net gains from common stocks and other investments were $360.4 million. The principal contributors to the stock realized gains were Latin American stocks ($247.8 million), Loews ($53.4 million), put contracts on a basket of technology stocks ($47.4 million), Samsung Fire & Marine ($7.5 million), Everest Re ($6.8 million) and Old Republic ($6.3 million). As an aside, we have made cumulative realized gains in excess of $500 million outside North America since we began investing internationally in 1997.

The table on page 83 shows the return on our investment portfolio. Investment income (interest and dividends) increased in 2000 due to the inclusion of TIG Specialty Insurance and Odyssey America Re for a full year, partially offset by a reduction in premiums due to re-underwriting and the runoff of certain insurance company portfolios. Pre-tax investment income increased to $62.10 per share in 2000 from $56.48 in 1999.

The speculation that we documented in our 1999 Annual Report ended with a thud in 2000 as technology stocks came back to earth. As shown below, the "senior" issues have dropped by more than 50% while the junior issues are down over 90%, as expected. By the way, we would consider these declines as "permanent" losses as mentioned in last year's Annual Report, as it is highly unlikely that any of these companies will see the high prices that prevailed in 1999/2000 again in the next ten years.

	December 31, 1999	**December 31, 2000**	**% change**
"Senior" issues			
AOL Time Warner	75.88	34.80	–54
Amazon.com	76.13	15.56	–80
Yahoo!	216.34	30.06	–86
Cisco	53.56	38.25	–29 (–55)*
Dell	51.00	17.44	–66
"Junior" issues			
DoubleClick	126.53	11.00	–91
Go2Net	87.00	16.10	–81 (–92)*
Infospace.com	53.50	8.84	–83 (–93)*
Red Hat	105.63	6.25	–94
VerticalNet	82.00	6.66	–92

** at February 27, 2001*

When you consider that AOL Time Warner is still selling at 61x cash earnings (pro forma loss of $1.02 per share), Yahoo! at 59x cash earnings (before charges related to acquisitions, investment losses, etc.) and Amazon.com is still losing money, you may feel like us that there is still plenty of downside left.

While technology stocks have come down significantly, as we have just discussed, the S&P500 is still selling at very high levels. I have to admit that we first began getting concerned about U.S. equity markets in late 1996 and very concerned from 1998 onwards. As the markets went

higher, we felt we were from another planet (another country I can understand!). Here's an update on the S&P500 since 1996.

As of December 31	Index	Earnings	Price/ Earnings	% Change in Index
1996	741	39	19x	
1997	970	40	24x	+31%
1998	1229	38	33x	+27%
1999	1469	49	30x	+20%
2000	1320	54	25x	–10%
1996-2000		**+38%**	**+32%**	**+78%**

As you can see, the S&P500 was down 10% in 2000 but is still a far cry from where it was in 1996. While the P/E ratio declined in 2000, it is still at very high and vulnerable levels. As an example of high P/E ratios, we observed in 1997 that GE was selling at 27.5x earnings. Currently, GE is selling at 38x earnings. Perhaps we are in a "New Era" with an all-powerful Federal Reserve that justifies GE selling at 38x earnings and 9.4x book value. We beg to differ and remind you that the S&P500 dropped by approximately 50% between 1972 and 1974, the last time GE sold at an astronomical P/E of 28x earnings. GE, by the way, dropped 59% in that time period. And yes, it took GE ten years to get back to the high price that it sold at in 1972.

While the investment climate appears to have decidedly turned bearish in the past three months, we want to remind you that we continue to think that most participants in today's equity markets in the U.S. will suffer significant permanent loss and it is very likely that the high price for the S&P500 (1,552) and Dow Jones (11,750) reached in early 2000 will not be seen again in the next ten years. While this may sound like a very bold statement, all it reflects is the fact that the median P/E over the past 100 years in the U.S. is approximately 15x and long term earnings growth for the S&P500 has been in the 6% – 7% area annually. So-called "long term" investors in the marketplace who are extrapolating the 15% – 20% return of the past decade are very likely to be disappointed.

We must also remind you again of two major risks that we see in the U.S. and Canadian financial markets that we first commented on in our 1997 Annual Report. The first is a potential "run" on mutual funds and the second is the possibility of "repricing of risk" as the default experience of bonds collateralized with consumer debt (credit card receivables, second mortgages, auto dealer receivables, etc.) becomes significantly worse than in the past. These are very significant risks given that more than 50% of all Americans are now in the stock market. It could be very dangerous.

As you know, we have backed our concerns about the U.S. markets with US$800 million (notional value) in S&P500 Index puts and also US$142 million (notional value) in similar one year contracts on a basket of technology stocks (we realized some of the gains in 2000). The S&P puts have already cost us US$115 million over the past three years as we have expensed the purchase costs of these puts over the terms of the contracts. The US$800 million in S&P puts have a carrying value of US$48 million in our books (current value approximately US$68 million).

We have approximately 6% of our investment portfolios in common shares and almost all the rest in cash and good quality marketable bonds (86.5% of the bonds are rated A or above, and almost none are below a BBB rating – please see page 83). By country, our common stock investments at December 31, 2000 were as follows:

	Book Value	Market Value
	($ millions)	
Canada	167	166
Japan	155	153
U.S.	122	125
Other	441	416
	885	860

As shown, most of our common stock investments continue to be outside of North America – particularly in Asia. Our S&P500 Index puts and our similar contracts on technology stocks are included in Other. Over time, we expect to realize gains on these investments – particularly if there is a full testing of our "doomsday" scenario.

Miscellaneous

In 2000, Fairfax and its subsidiaries donated $2.4 million to a variety of charities across North America. On a cumulative basis, since we began our donations program in 1991, we have donated $18.4 million to charitable institutions – and to think our whole company was worth $1.8 million when we began in September 1985!

Please review page 98 which is an unaudited unconsolidated balance sheet showing you where your money is invested. We have yet to list on the NYSE as the lower Canadian dollar has not made it conducive to unwind our foreign exchange hedges. However, it will be only a question of time before we list on the Big Board.

Given our poor performance in 1999/2000, I noticed that we have attracted for the first time a new type of investor in Fairfax – a few short sellers!! We had 47,100 shares sold short (i.e. hoping to benefit from a decline in our share price) as of December 31, 2000 – and I thought we attracted long term investors only!

Our strengths that we listed for you in the 1997 Annual Report continue to hold – and so have the risks, listed again on pages 88 and 89. We are very disappointed with our performance for you, our shareholders, in the last two years. Rest assured that we are totally focused on achieving our objective of a 20% return on equity over time – again. I wish I could tell you when but, like each of the past 15 years, I couldn't forecast the next quarter, let alone the next year. However, with the best management team we have ever had, investment portfolios of approximately $15 billion and some better fortune, we expect to get into your good books again.

Our Annual Meeting this year will continue to be held at the Metro Toronto Convention Centre and will take place on Tuesday, April 17, 2001 in Room 106 at 9:30 a.m. We will be ready to answer all your questions and, of course, all our Presidents, Fairfax officers and Hamblin Watsa principals will also be there to share in the glory!

John Puddington will be retiring this year as a director of Fairfax. John has been a pleasure to work with for the past ten years and has always been supportive of our company and its interests. As we wish him all the best in the future, we welcome Paul Ingrey to the Board. Paul has had one of the best track records in the reinsurance business, having founded and run F&G Re (part of U.S. F&G, now St. Paul's) for 14 years with a cumulative combined ratio of 91%. We look forward to Paul's wise counsel in the years to come.

I want to again highlight our website for you (*www.fairfax.ca*) and remind you that all our 16 Annual Reports are readily available there. Our press releases are immediately posted to our website. Our quarterly reports for 2001 will be posted to our website on the following days after the market close: first quarter – May 3, second quarter – August 7, and third quarter – November 6. Our Annual Report will be posted on March 8, 2002.

Again, on your behalf, I would like to thank the Board and the management and employees of all our companies for their dedication and commitment during an extremely difficult year.

March 1, 2001

V. P. Watsa

V. Prem Watsa
Chairman and
Chief Executive Officer

Consolidated Financial Statements

Consolidated Balance Sheets

as at December 31, 2000 and 1999

	2000 ($000)	1999 ($000)
Assets		
Cash and short term investments	450,205	613,197
Marketable securities	95,235	99,479
Accounts receivable and other	2,917,416	2,589,452
Recoverable from reinsurers (note 8)	11,099,462	9,743,256
Income taxes refundable	–	83,167
	14,562,318	13,128,551
Portfolio investments (note 2)		
Subsidiary cash and short term investments (market value – $1,955,476; 1999 – $1,846,706)	1,955,476	1,846,706
Bonds (market value – $11,295,015; 1999 – $12,065,723)	11,758,316	13,306,760
Preferred stocks (market value – $69,522; 1999 – $132,614)	70,212	133,928
Common stocks (market value – $859,751; 1999 – $1,413,643)	884,948	1,397,905
Real estate (market value – $76,347; 1999 – $80,735)	76,347	80,735
Total (market value – $14,256,111; 1999 – $15,539,421)	14,745,299	16,766,034
Investments in Hub and Zenith National	396,539	363,380
Deferred premium acquisition costs	386,689	361,146
Future income taxes (note 9)	1,276,291	893,034
Capital assets	140,752	122,223
Goodwill	259,652	246,099
Other assets	65,751	98,622
	31,833,291	31,979,089

Signed on behalf of the Board

V. P. Watsa

Director

Director

	2000 ($000)	1999 ($000)
Liabilities		
Lindsey Morden bank indebtedness	42,469	43,801
Accounts payable and accrued liabilities	1,449,437	1,385,613
Funds withheld payable to reinsurers	1,325,320	1,198,516
	2,817,226	2,627,930
Provision for claims (note 3)	20,225,831	20,442,199
Unearned premiums	2,252,312	2,276,344
Long term debt (note 5)	1,990,627	2,102,010
Trust preferred securities of subsidiaries (note 6)	392,022	378,789
	24,860,792	25,199,342
Non-controlling interests	645,159	601,595
Excess of net assets acquired over purchase price paid	129,808	234,243
Shareholders' Equity		
Common stock (note 7)	2,012,916	2,066,297
Preferred stock (note 7)	200,000	200,000
Retained earnings	1,167,390	1,049,682
	3,380,306	3,315,979
	31,833,291	31,979,089

Consolidated Statements of Earnings

for the years ended December 31, 2000 and 1999

	2000 ($000)	1999 ($000)
Revenue		
Gross premiums written	6,054,324	5,707,518
Net premiums written	4,566,478	4,151,129
Net premiums earned	4,610,662	4,470,719
Interest and dividends (note 2)	818,069	752,980
Realized gains on investments (note 2)	382,849	121,670
Claims fees	376,943	443,085
	6,188,523	5,788,454
Expenses		
Losses on claims	3,874,882	3,578,337
Operating expenses	1,297,758	1,216,326
Commissions, net	885,247	869,696
Interest expense	179,600	141,410
Restructuring and other costs	30,240	—
Kingsmead losses (note 14)	32,963	—
Negative goodwill	(79,245)	—
	6,221,445	5,805,769
Earnings (loss) before income taxes	(32,922)	(17,315)
Provision for (recovery of) income taxes (note 9)	(186,381)	(152,085)
Earnings from operations	153,459	134,770
Non-controlling interests	(16,018)	(10,562)
Net earnings	137,441	124,208
Net earnings per share (note 13)	$ 9.41	$ 9.20

Consolidated Statements of Retained Earnings

for the years ended December 31, 2000 and 1999

	2000 ($000)	1999 ($000)
Retained earnings – beginning of year	1,049,682	1,016,511
Net earnings for the year	137,441	124,208
Excess over stated value of shares purchased for cancellation (note 7)	(6,305)	(91,037)
Preferred share dividends	(13,428)	–
Retained earnings – end of year	1,167,390	1,049,682

Consolidated Statements of Changes in Cash Resources

for the years ended December 31, 2000 and 1999

	2000 ($000)	1999 ($000)
Operating activities		
Earnings from operations	153,459	134,770
Amortization	42,171	38,934
Future income taxes	(197,380)	(62,019)
Negative goodwill	(108,710)	(28,832)
Gains on investments	(382,849)	(121,670)
	(493,309)	(38,817)
Increase (decrease) in:		
Provision for claims	(720,380)	(1,247,420)
Unearned premiums	(122,487)	(567,193)
Accounts receivable and other	(273,381)	1,173,052
Recoverable from reinsurers	(983,368)	95,012
Income tax refundable	4,507	(76,058)
Accounts payable and accrued liabilities	(155,627)	(200,062)
Other	67,829	(28,503)
Cash provided by (used in) operating activities	(2,676,216)	(889,989)
Investing activities		
Investments – purchases	(4,420,729)	(8,540,043)
– sales	7,414,942	10,300,070
Sale (purchase) of marketable securities	4,244	(40,113)
Purchase of capital assets	(34,719)	(6,622)
Investments in Hub and Zenith National	(17,736)	(346,104)
Purchase of subsidiaries, net of cash acquired	(83,323)	(765,872)
Cash provided by (used in) investing activities	2,862,679	601,316
Financing activities		
Subordinate voting shares (note 7)	(59,686)	752,921
Preferred shares	–	200,000
Trust preferred securities of subsidiary	–	200,000
Long term debt (note 5)	(166,239)	429,668
Bank indebtedness	(1,332)	11,977
Preferred share dividends	(13,428)	–
Non-controlling interests	–	(20,061)
Cash provided by (used in) financing activities	(240,685)	1,574,505
Increase (decrease) in cash resources	(54,222)	1,285,832
Cash resources – beginning of year	2,459,903	1,174,071
Cash resources – end of year	2,405,681	2,459,903

Cash resources consist of cash and short term investments, including subsidiary cash and short term investments.

February 7, 2001

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Fairfax Financial Holdings Limited as at December 31, 2000 and 1999 and the consolidated statements of earnings, retained earnings and changes in cash resources for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Toronto, Ontario

February 7, 2001

Valuation Actuary's Report

PricewaterhouseCoopers LLP has reviewed management's valuation, including management's selection of appropriate assumptions and methods, of the policy liabilities of the subsidiary insurance and reinsurance companies of Fairfax Financial Holdings Limited in its consolidated balance sheet at December 31, 2000 and their change as reflected in its consolidated statement of earnings for the year then ended, in accordance with accepted actuarial practice.

In our opinion, management's valuation is appropriate, except as noted in the following paragraph, and the consolidated financial statements fairly present its results.

Under accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Management has chosen not to reflect the time value of money in its valuation of the policy liabilities.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Richard Gauthier, FCIA, FCAS
Toronto, Ontario

Notes To Consolidated Financial Statements

for the years ended December 31, 2000 and 1999
(in $000s except per share amounts and as otherwise indicated)

1. Summary of Significant Accounting Policies

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the periods covered by the financial statements. Actual results could differ from those estimates.

Business operations

The company is a financial services holding company which, through its subsidiaries, is principally engaged in property and casualty insurance conducted on a direct and reinsurance basis, investment management and insurance claims management.

Principles of consolidation

The consolidated financial statements include the accounts of the company and all of its subsidiaries:

Insurance

Commonwealth Insurance Company
Crum & Forster Holdings, Inc.
Falcon Insurance Company Limited
Federated Insurance Holdings of Canada Ltd.
Lombard General Insurance Company of Canada
Markel Insurance Company of Canada
Ranger Insurance Company
TIG Specialty Insurance Company

Reinsurance group

Odyssey America Reinsurance Corporation
Compagnie Transcontinentale de Réassurance
Syndicate 1218 at Lloyd's

Other reinsurance subsidiaries

CRC (Bermuda) Reinsurance Limited
ORC Re Limited
Wentworth Insurance Company Ltd.

Runoff

The Resolution Group, Inc.
Sphere Drake Limited
Odyssey Re Stockholm Insurance Corporation (publ)

Other

Hamblin Watsa Investment Counsel Ltd. (investment management)
Lindsey Morden Group Inc. (insurance claims management)

All subsidiaries are wholly-owned except for The Resolution Group with an effective 27.5% economic and 100% voting interest, and Lindsey Morden with a 66.5% equity and 85.9% voting interest. The company has investments in Hub International Limited with a 41.7% equity interest and Zenith National Insurance Corp. with a 39.0% equity interest. The company has an agreement with Zenith National that it will not seek to control or influence Zenith's Board of Directors, management or policies.

Acquisitions are accounted for by the purchase method, whereby the results of acquired companies are included only from the date of acquisition. Divestitures are included up to the date of disposal.

Premiums

Insurance and reinsurance premiums are taken into income evenly throughout the terms of the related policies.

Deferred premium acquisition costs

Certain costs, consisting of brokers' commissions and premium taxes, of acquiring insurance premiums are deferred, to the extent that they are considered recoverable, and charged to income as the premiums are earned. The ultimate recoverability of deferred premium acquisition costs is determined without regard to investment income.

Investments

Bonds are carried at amortized cost providing for the amortization of the discount or premium on a yield to maturity basis. Preferred and common stocks are carried at cost. Real estate is carried at book value. When there has been a loss in value of an investment that is other than temporary, the investment is written down to its estimated net realizable value. Such writedowns are reflected in realized gains (losses) on investments. At December 31, 2000, the aggregate provision for losses on investments was $ 22.7 million (1999 – $26.4 million).

The company purchases foreign currency forward contracts to hedge its foreign equity portfolio. At December 31, 2000, the company held Yen 22.5 billion of such contracts, maturing in 2002 and 2003. Once the securities are sold, the contracts are closed out and any gain or loss is then included in realized gain or loss on sale of investments. Gains or losses on contracts in excess of hedging requirements are recorded in income as they arise.

Provision for claims

Claim provisions are established by the case method as claims are reported. For reinsurance, the provision for claims is based on reports and individual case estimates received from ceding companies. The estimates are regularly reviewed and updated as additional information on the estimated claims becomes known and any resulting adjustments are included in income. A provision is also made for management's calculation of factors affecting the future development of claims including claims incurred but not reported (IBNR) based on the volume of business currently in force and the historical experience on claims.

Translation of foreign currencies

Assets and liabilities in foreign currencies are translated into Canadian dollars at year-end exchange rates. Income and expenses are translated at the exchange rates in effect at the date incurred. Realized gains and losses on foreign exchange transactions are recognized in the statements of earnings.

The operations of the company's subsidiaries (principally in the United States, France and the U.K.) are self-sustaining. As a result, the assets and liabilities of these subsidiaries are translated at the year-end rates of exchange. Revenue and expenses are translated at the average rate of

exchange for the years. The company enters into foreign currency contracts from time to time to hedge the foreign currency exposure related to its net investments in self-sustaining foreign operations. Such contracts are translated at the year-end rates of exchange. The net unrealized gains or losses, which result from translation, less related hedging gains or losses, are deferred and included in shareholders' equity.

At December 31, 2000, the company had net foreign currency contracts hedging its self-sustaining subsidiaries, maturing as follows:

	Notional Value *(millions)* **US$**
2001	350
2002	220
2003	925
2004	130
2006	370
2007	470
2008	75
	2,540

Goodwill

The excesses of purchase cost over the fair value of the net assets of acquired businesses are amortized on the straight line basis over their estimated useful lives which range from ten years for Hamblin Watsa Investment Counsel Ltd., Ranger Insurance Company and Seneca Insurance Company, Inc. to forty years for Lindsey Morden Group Inc. The company assesses the continuing value of goodwill based on the underlying undiscounted cash flows and operating results of the subsidiaries.

The excess of net assets acquired over purchase price paid for acquired businesses is amortized to earnings over three to six years. The company periodically reviews the appropriateness of the remaining amortization period of the negative goodwill based on its evaluation of the facts and circumstances giving rise to the original negative goodwill at the various acquisition dates.

Prior to the fourth quarter of 2000, all negative goodwill was amortized to earnings on a straight line basis over ten years. The company carried out a comprehensive review of the remaining useful life of the negative goodwill for each acquisition which resulted in a change in the various amortization periods. This change in estimate was applied on a prospective basis effective at the beginning of the fourth quarter of 2000, resulting in an increase in negative goodwill amortization of $79,245 for the year-ended December 31, 2000.

Reinsurance

The company reflects third party reinsurance balances on the balance sheet on a gross basis to indicate the extent of credit risk related to third party reinsurance and its obligations to policyholders and on a net basis in the statement of earnings to indicate the results of its retention of premiums written.

Income taxes

Income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases based on tax rates which are expected to be in effect when the asset or liability is settled.

2. Investment Information

	2000		1999	
	Book Value *($000)*	**Estimated Fair Value** *($000)*	**Book Value** *($000)*	**Estimated Fair Value** *($000)*
Subsidiary cash and short term investments	1,955,476	1,955,476	1,846,706	1,846,706
Bonds				
Canadian – government	851,866	798,257	785,073	727,547
– corporate	237,946	223,617	276,847	248,003
U.S. – government	4,882,611	4,785,107	6,151,941	5,490,068
– corporate	5,203,215	4,929,031	5,369,040	4,916,635
Other – government	414,848	406,010	574,247	543,759
– corporate	167,830	152,993	149,612	139,711
Preferred stocks				
Canadian	70,212	69,522	113,994	112,680
Other	–	–	19,934	19,934
Common stocks				
Canadian	166,514	165,706	222,998	202,930
U.S.	122,024	124,685	298,331	255,861
Other	596,410	569,360	876,576	954,852
Real estate	76,347	76,347	80,735	80,735
	14,745,299	14,256,111	16,766,034	15,539,421

The estimated fair values of preferred and common stocks and debt securities are based on quoted market values. The book value of real estate approximates fair value. At December 31, 2000, the company had S&P put contracts with a weighted average strike price of 1,277 and a notional value of US$700 million. The premiums paid to acquire these contracts are being charged to realized losses on equity investments on a straight line basis over their term to maturity in December 2001.

Management has reviewed currently available information regarding those investments whose estimated fair value is less than book value, amounting to an aggregate unrealized loss of $602,954 at December 31, 2000, and has determined that the book values are expected to be recovered. Debt securities whose book value exceeds market value can be held until maturity. Preferred and common stock investments have been reviewed to ensure that corporate performance expectations have not changed significantly to adversely affect the market value of these securities other than on a temporary basis.

The company's subsidiaries have pledged (either directly or indirectly to support letters of credit, including $136 million of intercompany letters of credit) cash and investments of $2.6 billion as security for reinsurance balances and regulatory deposits.

Liquidity and Interest Rate Risk

Maturity profile as at December 31, 2000:

	Within 1 Year *($000)*	**1 to 5 Years** *($000)*	**6 to 10 Years** *($000)*	**Over 10 Years** *($000)*	**Total** *($000)*
Bonds (book value)	180,148	3,047,238	6,154,034	2,376,896	11,758,316
Effective interest rate					5.9%

Bonds are classified at the earliest of the available maturity dates.

Investment Income

	2000 *($000)*	**1999** *($000)*
Interest and dividends:		
Cash and short term investments	109,434	89,929
Bonds	655,639	640,474
Preferred stocks	4,689	7,371
Common stocks	54,193	20,348
	823,955	758,122
Expenses	(5,886)	(5,142)
	818,069	752,980
Gain on sale of investments:		
Bonds	22,383	31,194
Preferred stocks	(174)	10
Common stocks	402,996	95,944
Other	(20,913)	(6,151)
Change in provision for loss	(21,443)	673
	382,849	121,670
Net investment income	1,200,918	874,650

3. Provision for Claims

The provisions for unpaid claims and adjustment expenses and for the third party reinsurers' share thereof are estimates subject to variability, and the variability could be material in the near term. The variability arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Variability can be caused by receipt of additional claim information, changes in judicial interpretation of contracts or liability or significant changes in severity or frequency of claims from historical trends. The estimates are principally based on the company's historical experience. Methods of estimation have been used which the company believes produce reasonable results given current information.

Changes in claim liabilities recorded on the balance sheet for the years ended December 31, 2000 and 1999 and their impact on unpaid claims and adjustment expenses for these two years are as shown in the following table:

	2000	**1999**
	($000)	*($000)*
Unpaid claim liabilities – beginning of year – net	12,179,511	9,320,581
Foreign exchange effect of change in claim liabilities	388,624	(438,057)
Increase in estimated losses and expenses for losses occurring in prior years	680,413	83,238
Recovery under Swiss Re cover	(404,011)	(89,720)
Provision for losses and expenses on claims occurring in the current year	3,465,266	2,695,419
Paid on claims occurring during:		
the current year	(983,921)	(793,294)
prior years	(4,242,419)	(2,054,037)
Unpaid claim liabilities at December 31 of:		
Seneca	71,392	–
TIG	–	1,187,246
Odyssey America Re	–	1,394,859
TRG	–	873,276
Unpaid claim liabilities – end of year – net	11,154,855	12,179,511
Unpaid claim liabilities at December 31 of Federated Life	30,725	28,500
Unpaid claim liabilities – end of year – net	11,185,580	12,208,011
Reinsurance gross-up	9,040,251	8,234,188
Unpaid claim liabilities – end of year – gross	20,225,831	20,442,199

The foreign exchange effect of change in claim liabilities results from the fluctuation of the value of the Canadian dollar in relation to the U.S. dollar and European currencies.

The basic assumptions made in establishing actuarial liabilities are best estimates of possible outcomes. The company presents its claims on an undiscounted basis.

The company's provision for asbestos, pollution and other hazards claims is set out in the table on page 74 of the MD&A.

As part of its acquisition strategy, the company generally obtains vendor indemnifications from adverse development in the acquired company's claims reserves and unrecoverable reinsurance. A summary of these indemnifications is set out in the table on page 79 of the MD&A.

4. Contingent Value Rights

As part of the consideration for the purchase of Sphere Drake, the company issued contingent value rights ("CVRs") of US$170.4 million (including effectively 8% interest per annum) payable in 2007, subject to earlier redemption at the option of the company. The amount payable at maturity is subject to adjustments for the development of Sphere Drake's provision for claims as of December 31, 1996, the development of Sphere Drake's reserves for unrecoverable receivables from reinsurers and indemnifiers as of December 31, 1996, the result of commutations and certain actuarial expenses. At December 31, 2000, adverse development has amounted to $209.7 million (US$139.6 million), with a remaining CVR obligation of US$30.8 million (the present value of which at December 31, 2000 was $27.0 million (US$18.0 million)).

5. Long Term Debt

The long term debt at December 31 consists of the following balances:

	2000 ($000)	1999 ($000)
Fairfax unsecured note with interest based on STIBOR due September 4, 2000	–	53,925
Fairfax unsecured senior notes of US$100 million at 7.75% due December 15, 2003	150,200	145,130
Fairfax unsecured senior note at 7.75% due December 15, 2003	25,000	25,000
Fairfax unsecured senior notes of US$275 million at 7 3/8% due March 15, 2006(1)	413,050	399,107
Fairfax FF300 million unsecured debt at 2 1/2% due February 27, 2007 (effectively a FF200 million debt at 8%)	52,487	51,699
Fairfax unsecured senior notes of US$175 million at 6.875% due April 15, 2008(1)	262,850	253,977
Fairfax unsecured senior notes of US$100 million at 8.25% due October 1, 2015(1)	150,200	145,130
Fairfax unsecured senior notes of US$225 million at 7.375% due April 15, 2018(1)(2)	337,950	326,542
Fairfax unsecured senior notes of US$125 million at 8.30% due April 15, 2026(1)	187,750	181,413
Fairfax unsecured senior notes of US$125 million at 7.75% due July 15, 2037(1)	187,750	181,413
Mandatory redeemable preferred stock of TIG, with an annual cash dividend of US$7.75 per share and redemption value of US$100 per share, due April 27, 2000 (250,000 shares)	–	36,282
TIG senior unsecured non-callable notes of US$100 million at 8.125% due April 15, 2005	148,915	145,130
Other long term debt of TIG	27,766	40,211
Lindsey Morden unsecured Series B debentures at 7% due June 16, 2008	125,000	125,000
Other long term debt of Lindsey Morden	14,249	17,968
Other long term debt of The Resolution Group	–	60,229
	2,083,167	2,188,156
Less: Lindsey Morden debentures held by Fairfax	(8,218)	(8,218)
Fairfax debentures held by subsidiaries	(84,322)	(77,928)
	1,990,627	2,102,010

(1) The company has entered into various interest rate swap agreements on the above-noted debt with an aggregate balance of $1,539,550 whereby it now pays interest on that debt at a rate linked to LIBOR or as noted in (2) below, saving approximately 69 basis points on average during 2000.

(2) During 1998, the company swapped US$125 million of its debt at 7.375% due April 15, 2018 for Japanese yen denominated debt of the same maturity, with fixed interest at 3.48% per annum.

The pre-tax unrealized loss, net of accumulated amortization, on the foreign exchange component of the yen debt swap amounted to $24.1 million at December 31, 2000 and is being amortized to income over the remaining term to maturity.

Interest expense on long term debt amounted to $174,071 (1999 – $138,613). Interest expense on Lindsey Morden's bank indebtedness amounted to $5,529 (1999 – $2,797).

Principal repayments are due as follows:

	($000)
2001	10,742
2002	14,141
2003	181,670
2004	4,313
2005	149,910
Thereafter	1,629,851

6. Trust Preferred Securities of Subsidiaries

TIG Holdings has issued $187,750 (US$125 million) of 8.597% junior subordinated debentures to TIG Capital Trust (a statutory business trust subsidiary of TIG Holdings) which, in turn, issued US$125 million of 8.597% mandatory redeemable capital securities, maturing in 2027.

Fairfax RHINOS Trust (a statutory business trust subsidiary of Fairfax Inc.) has issued $204,272 (US$136 million) of Redeemable Hybrid Income Overnight Shares (RHINOS) (136,000 trust preferred securities) with a distribution rate of LIBOR plus 150 basis points maturing February 24, 2003. The company has agreed to issue US$136 million of subordinate voting shares (or convertible preferred shares) by November 24, 2002, which proceeds will be used to mandatorily redeem the outstanding RHINOS.

7. Capital Stock

Authorized capital

The authorized share capital of the company consists of an unlimited number of preferred shares issuable in series, an unlimited number of multiple voting shares carrying ten votes per share and an unlimited number of subordinate voting shares carrying one vote per share.

Issued capital

	2000		1999	
	number	*($000)*	*number*	*($000)*
Multiple voting shares	1,548,000	5,000	1,548,000	5,000
Subordinate voting shares	12,352,118	2,026,938	12,677,427	2,080,319
	13,900,118	2,031,938	14,225,427	2,085,319
Interest in shares held through ownership interest in shareholder	(799,230)	(19,022)	(799,230)	(19,022)
Net shares effectively outstanding	13,100,888	2,012,916	13,426,197	2,066,297
Fixed/floating cumulative redeemable preferred shares, Series A, with a fixed dividend of 6.5% per annum until November 30, 2004 and stated capital of $25 per share	8,000,000	200,000	8,000,000	200,000

In 2000, under the terms of normal course issuer bids approved by The Toronto Stock Exchange, the company purchased and cancelled 325,309 subordinate voting shares for an aggregate cost of $59,686, of which $6,305 was charged to retained earnings.

In 1999, under the terms of normal course issuer bids approved by the Toronto Stock Exchange, the company purchased and cancelled 706,103 subordinate voting shares for an aggregate cost of $206,779, of which $91,037 was charged to retained earnings.

On November 18, 1999, the company issued 8,000,000 fixed/floating cumulative redeemable preferred shares, Series A, at $25 per share for cash of $200 million.

8. Reinsurance

The company follows the policy of underwriting and reinsuring contracts of insurance and reinsurance which, depending on the type of contract, generally limits the liability of the individual insurance and reinsurance subsidiaries to a maximum amount on any one loss of $7.5 million. Reinsurance is generally placed on an excess of loss basis in several layers. The company's reinsurance does not, however, relieve the company of its primary obligation to the policyholders.

The company has guidelines and a review process in place to assess the creditworthiness of the companies to which it cedes.

The company makes specific provisions against reinsurance recoverable from companies considered to be in financial difficulty. In addition, the company records a general allowance based upon analysis of historical recoveries, the level of allowance already in place and management's judgment. The allocation of the allowance for loss is as follows:

	2000 ($000)	1999 ($000)
Specific	785,207	895,104
General	134,740	73,302
Total	919,947	968,406

A summary of the company's major reinsurers, showing their A.M. Best rating and outstanding balance at December 31, 2000, is set out in the table on page 76 of the MD&A.

During the year, the company ceded premiums earned of $1,427,086 (1999 – $1,522,714) and $2,540,552 (1999 – $2,540,104) of claims incurred.

9. Income Taxes

The provision for income taxes differs from the statutory marginal rate as certain sources of income are exempt from tax or are taxed at other than the marginal rate.

A reconciliation of income tax calculated at the statutory marginal tax rate with the income tax provision at the effective tax rate in the financial statements is summarized in the following table:

	2000 ($000)	1999 ($000)
Provision for (recovery of) income taxes at statutory marginal income tax rate	(14,469)	(7,705)
Non-taxable investment income	(13,666)	(28,888)
Income earned outside Canada	(149,823)	(72,400)
Negative goodwill amortization	(49,508)	(11,548)
Change in tax rate for future income taxes	7,900	–
Unrecorded tax benefit of losses and utilization of prior years' losses	33,185	(31,544)
Provision for (recovery of) income taxes	(186,381)	(152,085)

Future income taxes of the company are as follows:

	2000 ($000)	1999 ($000)
Operating and capital losses	784,726	508,592
Claims discount	436,976	357,215
Unearned premium reserve	104,786	103,510
Deferred premium acquisition cost	(104,261)	(105,871)
Investments	(24,803)	(135,230)
Allowance for doubtful accounts	16,737	34,735
Other	130,139	181,786
Valuation allowance	(68,009)	(51,703)
Future income taxes	1,276,291	893,034

The future income tax asset relating to these losses is expected to be recovered from future profitable operations.

10. Statutory Requirements

The company's insurance and reinsurance subsidiaries are subject to certain requirements and restrictions under their respective insurance company Acts including minimum capital requirements and dividend restrictions.

The company can receive up to $343 million as dividends from insurance and reinsurance subsidiaries without obtaining the prior approval of insurance regulators.

At December 31, 2000, statutory surplus, determined in accordance with the various insurance regulations, amounted to $3.5 billion for the insurance subsidiaries, $1.6 billion for the reinsurance subsidiaries and $1.1 billion for the runoff subsidiaries.

11. Contingencies and Commitments

In 2000, the legal proceedings commenced by Sphere Drake in 1999 against a group of agents and intermediaries whom it alleged fraudulently obtained and utilized a binding authority to write reinsurance contracts which expose Sphere Drake to significantly under-priced U.S. workers' compensation business, which was filed in New York, was dismissed as to most defendants primarily on the ground that London, England was a more convenient forum in which the dispute should be resolved. Sphere Drake subsequently commenced proceedings in London, England against its agent and the agent of the cedants, alleging fraud and breach of duty. Sphere Drake has rescinded the majority of the inward reinsurance contracts placed under the binding authority and is defending arbitration proceedings initiated by the cedants of a number of those contracts. It is not yet possible to develop any reasonably based estimates of the amount of claims which might be made on these contracts. However, based on extensive legal advice, Sphere Drake believes that there is abundant evidence of fraud and that it has substantial grounds to challenge the enforceability of the business bound on its behalf. While the eventual outcome is uncertain, the company believes that the likely ultimate net liability which might arise in respect of this business will not be material to Sphere Drake's financial position.

Subsidiaries of the company are also defendants in several damage suits and have been named as third party in other suits. The uninsured exposure to the company is not considered to be material to the company's financial position.

Unsecured letters of credit aggregating $459 million have been issued upon the company's application and have been pledged as security for subsidiaries' reinsurance balances, principally relating to intercompany reinsurance between subsidiaries. These are unsecured letters of credit in addition to the secured letters of credit referred to in note 2.

The company may under certain circumstances be obligated to purchase loans to officers and directors of the company and its subsidiaries from Canadian chartered banks totalling $16,559 (1999 – $15,728) for which 315,861 (1999 – 335,846) subordinate voting shares of the company with a year-end market value of $72,174 (1999 – $82,450) have been pledged as security. The company has a restricted stock plan for the management of its subsidiaries with vesting periods of up to ten years from the date of grant. Stock grant costs are amortized to compensation expense over the vesting period. Shares for the plan are purchased on the open

market. At December 31, 2000, 227,338 subordinate voting shares had been purchased for the plan at a cost of $66,899. Amortization expense for the year for stock grant costs amounted to $6,214.

12. Operating Leases

Aggregate future commitments at December 31, 2000 under operating leases relating to premises, automobiles and equipment for various terms up to ten years are as follows:

	($000)
2001	91,838
2002	76,401
2003	63,229
2004	51,203
2005	45,598
Thereafter	103,145

13. Earnings per Share

Earnings per share are calculated after providing for dividends on the Series A fixed/floating cumulative redeemable preferred shares.

Fully diluted and basic earnings per share are the same in 2000 and 1999. The weighted average number of shares for 2000 was 13,172,448 (1999 – 13,331,671).

14. Acquisitions

Effective August 31, 2000, Crum & Forster purchased Sen-Tech Holdings, Inc. (and its wholly-owned subsidiary, Seneca Insurance Company, Inc. of New York) for US$65 million ($96 million) cash. Effective December 21, 2000, Crum & Forster also purchased Transnational Insurance Company for US$17 million ($26 million) cash. At the respective dates of acquisition, the companies had US$193 million in total assets and US$119 million in total liabilities, at fair value, resulting in goodwill of US$8 million which is being amortized on a straight line basis over 10 years.

Effective August 11, 1999, the company purchased the class 1 voting shares of TRG Holding Corporation of Chicago for US$97 million ($144 million) cash. At August 11, 1999, TRG had US$2.6 billion in total assets and US$2.1 billion in total liabilities, at fair value, and non-controlling interest (consisting of class 2 non-voting participating preferred shares) of US$368 million, resulting in an excess of the fair value of net assets acquired over the purchase price paid of US$40.0 million. Effective December 31, 1992, Ridge Re, a wholly-owned subsidiary of Xerox Financial Services, provided US$578 million of aggregate excess of loss reinsurance to International Insurance, a wholly-owned subsidiary of TRG, covering any inadequacy in International's provision for claims as at December 31, 1992 and for any of International's reinsurance receivable relating to the period up to December 31, 1992 which subsequently becomes unrecoverable, net of 15% coinsurance. International has not written any business since 1992. At December 31, 1999, the remaining reinsurance under the Ridge Re contract was US$212 million, net of 15% coinsurance.

Effective April 13, 1999, the company purchased TIG Holdings, Inc. of New York for US$847 million ($1,262 million) cash. At April 13, 1999, TIG had US$7.5 billion in total assets and US$6.7 billion in total liabilities, at fair value. As part of its acquisition of TIG, the

company purchased a US$1 billion insurance cover from Swiss Re to protect itself from adverse development in its subsidiaries' (including TIG) claims reserves and unrecoverable reinsurance at December 31, 1998. As part of the acquisition of TIG, the company acquired a 90% ownership in Kingsmead Managing Agency, a managing agent for three Lloyd's syndicates for which TIG provided underwriting capacity. On June 29, 2000, the company entered into an agreement to sell Kingsmead to Advent Capital plc for a 22% interest in Advent, which sale closed on November 16, 2000. The company recorded operating losses from the Kingsmead-managed syndicates of $33.0 million for the year ended December 31, 2000 and there was no gain or loss on the sale.

15. Segmented Information

The company is a financial services holding company which, through its subsidiaries, is primarily engaged in property and casualty insurance conducted on a direct and reinsurance basis. The runoff business segment was formed with the acquisition of the company's interest in The Resolution Group ("TRG") and its wholly-owned subsidiary, International Insurance, on August 11, 1999 and also includes Sphere Drake, which was transferred to runoff effective July 1, 1999, and Odyssey Re Stockholm, a runoff company purchased in September 1998. The international runoff operations have reinsured their reinsurance portfolios to ORC Re to provide consolidated investment and liquidity management services, with the RiverStone Group retaining full responsibility for all other aspects of the runoff. Accordingly, for segmented information, ORC Re is classified in the Runoff and other segment. The 1999 comparatives have been restated on a consistent basis. The company also provides claims adjusting, appraisal and loss management services.

	Canada		United States		Europe and Far East		Total	
	2000	1999	2000	1999	2000	1999	2000	1999
	($000)	*($000)*	*($000)*	*($000)*	*($000)*	*($000)*	*($000)*	*($000)*
Revenue								
Insurance	657,798	797,430	2,749,859	2,528,349	12,717	9,598	3,420,374	3,335,377
Reinsurance	16,400	8,427	950,650	927,156	538,234	500,416	1,505,284	1,435,999
Claims adjusting	44,686	45,982	109,203	115,333	223,054	281,770	376,943	443,085
Runoff and other	–	–	86,013	19,607	580,626	485,239	666,639	504,846
	718,884	851,839	3,895,725	3,590,445	1,354,631	1,277,023	5,969,240	5,719,307
Corporate							219,283	69,147
							6,188,523	5,788,454
	11.6%	14.7%	63.0%	62.0%	21.9%	22.1%		
Earnings before income taxes								
Insurance	52,448	(8,333)	(295,914)	25,253	(25,468)	(8,250)	(268,934)	8,670
Reinsurance	246	2,749	140,504	71,221	42,955	(81,471)	183,705	(7,501)
Claims adjusting	(17,956)	(13,357)	(10,943)	(2,183)	(7,299)	26,191	(36,198)	10,651
Runoff and other	–	–	26,482	19,607	155,756	92,435	182,238	112,042
	34,738	(18,941)	(139,871)	113,898	165,944	28,905	60,811	123,862
Corporate							(93,733)	(141,177)
							(32,922)	(17,315)
Identifiable assets								
Insurance	1,849,755	2,272,030	14,256,178	11,713,505	31,358	–	16,137,291	13,985,535
Reinsurance	7,812	69,987	6,424,412	6,683,187	1,296,089	2,214,815	7,728,313	8,967,989
Claims adjusting	47,584	51,675	63,753	67,685	331,486	352,006	442,823	471,366
Runoff and other	–	–	3,100,608	3,967,969	4,122,251	3,782,799	7,222,859	7,750,768
	1,905,151	2,393,692	23,844,951	22,432,346	5,781,184	6,349,620	31,531,286	31,175,658
Corporate							302,005	803,431
							31,833,291	31,979,089
	6.0%	7.5%	74.9%	70.5%	18.2%	19.9%		
Amortization	3,348	6,679	17,311	13,048	21,513	19,207	42,172	38,934
Interest expense							179,600	141,410

Geographic revenue is determined based on the domicile of the various subsidiaries and where they primarily derive their revenue. Revenue includes net premiums earned, interest and dividend income and realized gains on sale of investments.

CRC (Bermuda) Reinsurance is included in the Canadian segment and Wentworth Insurance is included in the United States segment.

Corporate and other revenue includes interest on the company's cash balances, management fees and other. Corporate and other earnings before income taxes includes the company's interest expense and corporate overhead. Corporate and other identifiable assets include cash in the holding company.

16. Fair Value

Information on the fair values of financial instruments of the company where those values differ from their carrying values in the financial statements at December 31, 2000 include:

	Note Reference	Book Value *($000)*	Estimated Fair Value *($000)*
Portfolio investments	2	14,745,299	14,256,111
Investments in Hub and Zenith National	–	396,539	401,630
Long term debt	5	1,990,627	1,680,016
Trust preferred securities of subsidiaries	6	392,022	335,697
Foreign exchange contracts	1	–	(123,830)

The amounts do not include the fair value of underlying lines of business. While fair value amounts are designed to represent estimates of the amounts at which instruments could be exchanged in current transactions between willing parties, certain of the company's financial instruments lack an available trading market. Therefore, these instruments have been valued on a going concern basis. Fair value information on the provision for claims is not determinable.

These fair values have not been reflected on the financial statements.

17. US GAAP Reconciliation

The consolidated financial statements of the company have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") which are different in some respects from those applicable in the United States, as described below.

Consolidated Statements of Earnings

For the years ended December 31, 2000 and 1999, significant differences between consolidated net earnings under Canadian GAAP and consolidated net earnings under US GAAP were as follows:

(a) In Canada, the unrealized loss on the translation of the foreign exchange component of the yen debt swap is deferred and amortized to income over the remaining term to maturity. In the U.S., the unrealized foreign exchange loss is recognized in income in the year, although there is no intention to settle the swap prior to maturity.

(b) In Canada, the Swiss Re recoveries are recorded at the same time as the claims incurred are ceded to Swiss Re. In the U.S., the Swiss Re recoveries are recorded up to the amount of the premium paid with the excess of the ceded liabilities over the premium paid recorded as a deferred gain. The deferred gain is amortized to income over the estimated settlement period over which the company expects to receive the recoveries.

(c) In Canada, the amortization period of negative goodwill is periodically reviewed to determine whether the remaining useful life continues to be appropriate or whether the amortization period should be adjusted, based on the facts and circumstances giving rise to the negative goodwill at the date of acquisition. In the U.S., in the case of financial

institutions, the SEC staff generally take exception to a negative goodwill amortization period of less than 10 years.

(d) In Canada, the cost to close duplicate facilities in the London market operations on the acquisition of TIG Holdings in 1999 was accrued for in the purchase equation. In the U.S., such costs are expensed as they relate to the closure of the company's own operations.

(e) Under Canadian GAAP, the Canadian federal income tax rate reductions that become effective January 1, 2001 and subsequent are reflected in the rate used to measure future income tax balances. Under United States GAAP, Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", this rate change does not impact the measurement of the company's future income tax balances until it is passed into law.

The following shows the net earnings in accordance with US GAAP:

	2000 *($000)*	**1999** *($000)*
Net earnings, Canadian GAAP	137,441	124,208
Foreign exchange gain (loss) on yen debt swap, net of tax	9,268	(10,636)
Recovery on Swiss Re cover, net of tax	(159,636)	(24,154)
Amortization of negative goodwill	(79,245)	–
Change in tax rate for future income taxes	7,900	–
Closure costs, net of tax	–	(11,266)
Net earnings (loss), US GAAP	(84,272)	78,152
Net earnings (loss) per share, US GAAP	$ (7.42)	$ 5.86

Consolidated Balance Sheets

In Canada, portfolio investments are carried at cost or amortized cost with a provision for declines in value which are considered to be other than temporary. In the U.S., such investments are classified as available for sale and marked to market through shareholders' equity.

In Canada, trust preferred securities of subsidiaries (including RHINOS) are included in total liabilities. In the U.S., trust preferred securities are shown as a separate caption after total liabilities, in a manner similar to non-controlling interests.

The following shows the balance sheet amounts in accordance with US GAAP, setting out individual amounts where different from the amounts reported under Canadian GAAP:

	2000 ($000)	1999 ($000)
Assets		
Portfolio investments		
Bonds	11,295,015	12,065,723
Preferred stocks	69,522	132,614
Common stocks	859,751	1,413,643
Total portfolio investments	12,224,288	13,611,980
Future income taxes	1,634,520	1,402,841
Goodwill	352,092	326,282
All other assets	17,583,872	15,957,561
Total assets	31,794,772	31,298,664
Liabilities		
Accounts payable and accrued liabilities	1,935,534	1,544,808
All other liabilities	25,836,559	26,019,068
Total liabilities	27,772,093	27,563,876
Trust preferred securities of subsidiaries	392,022	378,789
Non-controlling interest	645,159	601,595
Excess of net assets acquired over purchase price paid	209,053	234,243
	1,246,234	1,214,627
Shareholders' Equity		
Total shareholders' equity	2,776,445	2,520,161

The difference in consolidated shareholders' equity is as follows:

	2000 ($000)	1999 ($000)
Shareholders' equity based on Canadian GAAP	3,380,306	3,315,979
Other comprehensive income	(336,093)	(749,762)
Cumulative reduction in net earnings under US GAAP	(267,768)	(46,056)
Shareholders' equity based on US GAAP	2,776,445	2,520,161

Statement of Financial Accounting Standards No. 130 "Reporting Comprehensive Income" requires the company to disclose items of other comprehensive income in a financial statement and to disclose accumulated balances of other comprehensive income in the equity section of a financial statement. Other comprehensive income includes unrealized gains and losses on investments, as follows:

	2000 *($000)*	**1999** *($000)*
Unrealized gain (loss) on investments available for sale	(489,188)	(1,226,613)
Less: related deferred income taxes	153,095	476,851
	(336,093)	(749,762)

Disclosure of interest and income taxes paid

The aggregate amount of interest paid (excluding interest received on interest rate swaps) for the years ended December 31, 2000 and 1999 was $195,460 and $161,162 respectively. The aggregate amount of income taxes paid for the years ended December 31, 2000 and 1999 was $4,507 and $24,235 respectively.

Future changes in United States accounting policies

The company is required to adopt for United States reporting purposes Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", starting with financial statements for the year ending December 31, 2001.

Under this standard, all derivatives are recognized at fair value in the balance sheet. Changes in the fair value of derivatives that are not hedges are recognized in the Consolidated Statement of Earnings as they arise consistent with current practice. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset in the Consolidated Statement of Earnings against the change in the fair value of the hedged asset or will be recognized in other comprehensive income until the hedged item is recognized in the Consolidated Statement of Earnings. If the change in the fair value of the derivative is not completely offset by the change in the value of the item it is hedging, the difference will be recognized immediately in the Consolidated Statement of Earnings.

The company's forward contracts are hedges of net investments in subsidiaries and therefore there is no impact as a result of this Standard. The fair value of all other derivative instruments (put options and interest rate swaps) at January 1, 2001 is approximately $10 million less than their carrying value.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Note: Readers of the Management's Discussion and Analysis of Financial Condition and Results of Operations should review the entire Annual Report for additional commentary and information.

Sources of Revenue

Revenue reflected in the consolidated financial statements includes net premiums earned, interest and dividend income and realized gains on sale of investments of the insurance, reinsurance and runoff companies, claims adjusting fees of Lindsey Morden and other miscellaneous income. The runoff business segment was formed with the acquisition of the company's interest in The Resolution Group ("TRG") and its wholly-owned subsidiary, International Insurance, on August 11, 1999 and also includes Sphere Drake, which was transferred to runoff effective July 1, 1999, and Odyssey Re Stockholm, a runoff company purchased in September 1998. The international runoff operations have reinsured their reinsurance portfolios to ORC Re to provide consolidated investment and liquidity management services, with the RiverStone Group retaining full responsibility for all other aspects of the runoff. Accordingly, for segmented information, ORC Re is classified in the Runoff and other segment. The 1999 comparatives have been restated on a consistent basis.

Revenue by Line of Business

	2000 *($000)*	1999 *($000)*	1998 *($000)*	1997 *($000)*	1996 *($000)*
Insurance	3,420,374	3,335,377	1,823,760	1,086,854	1,026,107
Reinsurance	1,505,284	1,435,999	1,380,065	801,864	273,340
Claims adjusting	376,943	443,085	294,843	166,331	162,266
Runoff and other	666,639	504,846	–	–	–
Corporate	219,283	69,147	75,649	33,258	14,102
	6,188,523	5,788,454	3,574,317	2,088,307	1,475,815

The 2000 increase in insurance revenue was mainly the result of the inclusion of TIG Specialty Insurance's revenue for a full year in 2000 (compared with nine months in 1999), partially offset by reduced premiums for C&F and Ranger as a result of their re-underwriting actions.

The increase in reinsurance revenue in 2000 arose from the inclusion of Odyssey America Re's (formerly TIG Re) revenue for a full year in 2000 (compared with nine months in 1999), partially offset by CTR's reduced premium volume as it significantly reduced its unprofitable facultative and other classes of business, the impact of the lower Euro/Canadian dollar exchange rate in 2000 on CTR's revenue, and the inclusion of Sphere Drake's revenue for the six months ended June 30, 1999 when it ceased active underwriting (and was thereafter included in runoff).

The 2000 decrease in claims adjusting revenue reflects lower weather-related claims activity in North America and the U.K. as well as fewer ground subsidence claims in the U.K.

The increase in runoff and other revenue reflects the inclusion of TRG's revenue for a full year in 2000 (compared with four months in 1999) and the higher realized gains and investment income on the international runoff portfolios.

On a geographic basis, the United States operations accounted for 63% of total revenue in 2000 compared with 62% in 1999. Operating loss before income taxes from U.S. operations amounted to $139.9 million in 2000 compared with an operating profit of $113.9 million in 1999. Canadian operations accounted for 12% of total revenue in 2000 compared with 15% in 1999. Operating profit from Canadian operations amounted to $34.7 million in 2000 compared with an operating loss of $18.9 million in 1999. The Europe and Far East operations accounted for 22% of total revenue in 2000, the same as in 1999. Operating profit from the Europe and Far East operations amounted to $165.9 million in 2000 compared with $28.9 million in 1999. The balance of revenue and operating profit or loss was related to corporate.

Net Earnings

Sources of net earnings (with Lindsey Morden equity accounted) were as follows for the past five years:

	2000 *($000)*	**1999** *($000)*	**1998** *($000)*	**1997** *($000)*	**1996** *($000)*
Underwriting					
Insurance					
Canada	(13,025)	(96,570)	(40,338)	5,202	3,921
U.S.	(588,408)	(273,131)	(116,470)	(25,572)	(49,767)
Reinsurance	(97,367)	(247,364)	(154,571)	(35,787)	(4,717)
Interest and dividends	593,512	711,475	432,024	242,300	144,101
Insurance and reinsurance earnings (loss) before realized gains	(105,288)	94,410	120,645	186,143	93,538
Realized gains	378,305	121,670	440,785	206,773	131,274
Runoff	43,303	(54,231)	–	–	–
Claims adjusting (Fairfax portion)	(15,387)	2,784	12,388	1,824	2,298
Interest expense	(164,743)	(129,262)	(84,356)	(43,182)	(34,997)
Goodwill and other amortization	(5,362)	(5,067)	(4,985)	(4,817)	(4,765)
Negative goodwill	99,113	–	–	–	–
Swiss Re premium	(167,196)	(35,312)	–	–	–
Kingsmead losses	(32,963)	–	–	–	–
Restructuring	(16,402)	–	–	–	–
Corporate overhead and other	(22,966)	(20,174)	(15,963)	(14,991)	(6,656)
Pre-tax income (loss)	(12,586)	(25,182)	468,514	331,750	180,692
Less (add): taxes	(173,306)	(158,023)	80,979	99,252	29,872
Less: non-controlling interests	23,279	8,633	–	–	–
Net earnings	137,441	124,208	387,535	232,498	150,820

Net earnings in 2000 were $137.4 million, an increase of $13.2 million or 11% from 1999 net earnings of $124.2 million.

The major changes which affected net earnings are set out below.

Insurance and reinsurance earnings before realized gains decreased by $199.7 million over 1999 due to higher underwriting losses of $81.7 million and lower interest and dividend income of $118.0 million. Underwriting losses at TIG and CTR reflect the benefit of the Swiss Re cover.

Canadian insurance underwriting losses improved by $83.5 million which reflects the improvement in the group's combined ratio to 102.0% in 2000 from 114.9% in 1999. Commonwealth successfully re-underwrote its Oil, Gas and Petrochemicals and U.S. Property business in 1999, when it suffered due to soft markets and the company's willingness to walk away from underpriced accounts. In 2000, Commonwealth obtained significant pricing increases on these books of business. Lombard's underwriting results improved from a

combined ratio of 105.0% in 1999 to 100.6% in 2000 reflecting strict underwriting discipline as well as redundancies from prior years' reserves.

U.S. insurance underwriting losses deteriorated by $315.3 million which reflects a deterioration in the group's combined ratio to 124.3% in 2000 compared with 111.8% in 1999. TIG and C&F incurred adverse development of $169 million on the 1999 accident year which was the bottom of the soft U.S. insurance market and which represented 6.5% of their combined 1999 net earned premiums. Excluding the 1999 accident year adverse development, the 2000 combined ratio for the U.S. insurance companies would have been 117.1%.

TIG's 2000 combined ratio (excluding 1999 reserve strengthening) was 116.4% compared to 118.4% in 1999 (before purchase adjustments and after reflecting the 1999 reserve strengthening in 2000). In 2000, TIG significantly re-underwrote its programs by exercising more underwriting and pricing control while bringing more claims handling in-house. The impact of these changes will emerge primarily in 2001. Offsetting these underwriting and claims actions, TIG incurred underwriting losses of $56.0 million on its Non-Standard Auto program (adding 1.8 percentage points to its 2000 combined ratio). This program has now been discontinued due to its poor performance and since it is not part of the company's strategic focus.

Excluding 1999 reserve strengthening, C&F's 2000 combined ratio was 116.3% compared to a 1999 combined ratio of 128.6% (after reflecting the 1999 reserve strengthening in 2000). The improvement in C&F's adjusted underwriting loss amounted to $156.3 million reflecting the significant underwriting and pricing actions taken by C&F in 1999 and 2000.

Ranger's 2000 underwriting loss was $47.6 million, approximately $33.0 million of which resulted from Ranger's programs discontinued in 1999 (Petroleum and Natural Gas Marketers, Mississippi Insurance Managers and California Artisan Contractors). The combined ratio on Ranger's continuing programs was 121.6%.

The U.S. insurance companies experienced average price increases of 8.5% for 2000 with average price increases in excess of 12% in the fourth quarter of 2000, compared to overall price decreases of 4% to 6% in 1999.

The reinsurance underwriting loss improved $150.0 million from $247.4 million in 1999 to $97.4 million in 2000. The group incurred minimal catastrophe losses in 2000 compared with $127.8 million in 1999. CTR discontinued its non-performing facultative business in 2000. The Paris branch of Odyssey America Re will only write facultative business in Europe and Asia in support of its treaty book.

Interest and dividends declined by $118.0 million from $711.5 million in 1999 to $593.5 million in 2000 reflecting:

- a $2.4 billion decrease in the investment portfolios of the insurance and reinsurance companies in 2000 due to the significant reduction in C&F's net premiums earned which declined from US$933.7 million in 1997 (the year before Fairfax's acquisition) to US$548.0 million in 2000, a significant reduction in the net premiums written of Odyssey America Re (formerly TIG Re) of $100.0 million from 1997 to 1999 as it exited the reverse flow and facultative business, payment by the reinsurance group on 1999 catastrophe losses and Ranger's 65% reduction in net premiums earned since 1997;
- an increase in funds withheld interest expense from $79.5 million in 1999 to $102.4 million in 2000, reflecting TIG and TIG Re's extensive use of finite risk stop loss treaties before their acquisition by Fairfax; and
- the transfer to runoff effective July 1, 1999 of Sphere Drake, which contributed $23.6 million to 1999 interest and dividend income.

Net realized gains increased in 2000 to $378.3 million from $121.7 million in 1999, principally relating to the sale of Fairfax's Latin American common equity portfolio ($247.8 million) and other common equity gains ($184.5 million), offset primarily by put amortization ($71.9 million).

Runoff operations comprise Odyssey Re Stockholm, Sphere Drake since July 1, 1999 and TRG since August 11, 1999. The earnings of $43.3 million from runoff operations primarily resulted from higher investment income from TRG (included for a full year in 2000 compared with four months in 1999) and the international runoff operations, and the runoff of Sphere Drake's premiums since the transfer of Sphere Drake to runoff effective July 1, 1999, offset by Sphere Drake's 2000 reserve strengthening on 1999 catastrophes.

Fairfax's $15.4 million share of Lindsey Morden's (claims adjusting) loss in 2000, compared with a $2.8 million share of profits in 1999, reflects Lindsey Morden's significantly lower revenue and operating profit from its U.K. and U.S. operations as reductions in operating costs lagged revenue declines. In addition, Lindsey Morden incurred restructuring and other costs of $13.8 million to reduce staffing levels in line with lower claims activity in its U.S. and U.K. operations.

Interest expense increased in 2000 due to a full year of interest expense on debt incurred to purchase TIG Holdings and on TIG Holdings' debt assumed, compared with nine months in 1999.

As part of its acquisition of TIG effective April 13, 1999, Fairfax purchased a US$1 billion corporate insurance cover from Swiss Re protecting it from adverse development in claims and unrecoverable reinsurance above the reserves set up by all of its subsidiaries (including TIG Specialty Insurance and Odyssey America Re (formerly TIG Re) but otherwise not including subsidiaries acquired after 1998) at December 31, 1998. In 2000, Fairfax strengthened 1998 and prior reserves and ceded these losses of $404.0 million (US$272.3 million) to Swiss Re for which it will pay an additional premium of $167.2 million (US$112.7 million) to a funds withheld account to the benefit of Swiss Re. The 2000 cession included:

- $224.0 million in respect of TIG's claims reserves (prior to its acquisition by Fairfax) primarily relating to California construction defect exposures, the losses on which are expected to emerge over the next five to ten years. One of the reasons for purchasing the corporate insurance cover was to provide TIG with reinsurance protection (similar to Fairfax's other vendor indemnities);
- $145.0 million in respect of Sphere Drake's claims reserves on its 1997 and 1998 underwriting years, including catastrophe losses resulting from Hurricane George. As set out in note 4 to the consolidated financial statements, Fairfax has remaining CVR protection of $46.3 million (US$30.8 million) on Sphere Drake's 1996 and prior claims reserves;
- $27.6 million in respect of Crum & Forster's claims reserves from August 13, 1998 (the date of its acquisition by Fairfax) to December 31, 1998. Crum & Forster continues to have reinsurance protection of its August 13, 1998 and prior claims reserves of $259 million (see Indemnifications on page 79);
- $31.9 million in respect of CTR's 1997 and 1998 underwriting years, primarily from its now discontinued facultative books of business; and
- $24.5 million in offsetting net redundancies from the remaining subsidiaries.

Additional premium will be payable to Swiss Re if additional losses are ceded to this cover in future years.

As part of the acquisition of TIG Holdings, TIG Specialty Insurance had a 90% ownership in Kingsmead Managing Agency, a managing agent for three Lloyd's syndicates for which TIG provided underwriting capacity of £151.4 million for 2000. On June 29, 2000, Fairfax signed an agreement to sell its investment in Kingsmead to Advent Capital plc for 22% of Advent, which sale closed in the fourth quarter. Fairfax's operating losses from the Kingsmead syndicates for the year ended December 31, 2000 amounted to $33.0 million, primarily relating to reserve strengthening on the 1999 underwriting year. There was no gain or loss on the sale.

The restructuring costs of $16.4 million in 2000 relate to further restructuring of C&F's operations (net of its remaining acquisition date accrual), the closure of TIG offices, including severance, and the closure of Odyssey America Re's U.S. facultative offices. The remaining $13.8 million of the $30.2 million Restructuring and other costs shown on Fairfax's statement of earnings on page 30 relates to Lindsey Morden (and is included in Fairfax's portion of the claims adjusting loss in the above table of sources of net earnings).

Fairfax's acquisition policy is to purchase under-valued insurance and reinsurance companies at a discount to book value and/or with vendor indemnities or reinsurance stop loss treaties protecting Fairfax against adverse development on pre-acquisition claims reserves and unrecoverable reinsurance. Four acquisitions, Odyssey Reinsurance Corporation (1996), CTR (1997), C&F (1998) and TRG (1999), resulted in negative goodwill arising out of the purchase price equation at the date of acquisition. In general, the negative goodwill arises from a combination of the following factors relating to the acquired company:

- the former owner which put the company up for sale was unable to find a buyer at a premium to book value;
- there was a need to bolster the franchise value due to lack of scale as the company was part of a larger insurance group or had been publicly up for sale for an extended period of time;
- the company had quality of management issues and a lack of focus on underwriting profitability;
- the company had a high and inefficient cost structure;
- there was a risk that, although assets and liabilities were valued at fair value at the acquisition date and vendor indemnities were provided for these acquisitions, assets, including reinsurance recoverables, could be overstated or liabilities, including provisions for claims, could be understated.

Fairfax's accounting policy previously arbitrarily set ten years as the period over which the negative goodwill would be amortized to income. This reflected the lack of experience and uncertainty with the period over which the factors giving rise to the negative goodwill would be resolved. Periodically the company reviews the appropriateness of the remaining period of the negative goodwill based on its evaluation of the facts and circumstances giving rise to the original negative goodwill at the various acquisition dates. In 2000, the company carried out a comprehensive review of the remaining useful life of the negative goodwill for each acquisition and concluded that the amortization periods should be shortened from ten years to five years for Odyssey Reinsurance Corporation, six years for CTR, three years for C&F and four years for TRG. Odyssey Reinsurance Corporation (now part of Odyssey America Re) has established itself as a global reinsurer which, effective July 1, 2000, is writing CTR's European property and casualty business through its Paris branch, and effective January 1, 2001 is writing CTR's Asian property and casualty business through its Singapore branch. There have been no unexpected valuation issues arising from the acquisition date assets and liabilities and the vendor indemnities have not been fully utilized. In the case of C&F, its restructuring and re-underwriting activities were completed in 2000. Additional losses were incurred on the in-force unearned premiums at the acquisition date and have been recorded in 1999 and 2000. C&F's operating results continue to improve, with pre-tax income of US$4.0 million in 2000 compared to a pre-tax loss of US$31.0 million in 1999.

These changes in estimates were applied on a prospective basis effective at the beginning of the fourth quarter of 2000, resulting in an increase in negative goodwill amortization of $79.2 million for the year ended December 31, 2000, from $29.5 million to $108.7 million. The remaining balance of negative goodwill of $129.8 million at December 31, 2000 will be amortized to income in 2001 ($75.8 million), 2002 ($40.0 million) and 2003 ($14.0 million), assuming that the revised amortization periods remain appropriate.

Corporate overhead and other consists of holding company expenses net of Hamblin Watsa's pre-tax income and interest income on Fairfax's cash balances.

The company recorded a recovery for income taxes in 2000 due to income earned outside Canada at lower rates of tax and operating losses in higher tax rate jurisdictions.

The non-controlling interests represent the 33.5% public minority interest in Lindsey Morden and Xerox's effective 72.5% economic interest in TRG's results of operations and net assets. Fairfax owns all of TRG's voting common shares resulting in an effective 27.5% economic interest in TRG's results of operations and net assets. Xerox retains all of TRG's participating non-voting preferred shares resulting in an effective 72.5% economic interest in TRG's results of operations and net assets. Xerox's wholly-owned subsidiary, Ridge Re, also provides TRG's wholly-owned subsidiary, International Insurance, with the vendor indemnity referred to under Indemnifications on page 79. TRG's cessions to Ridge Re are fully collateralized by letters of credit in the same amount as the cessions.

Insurance Underwriting

Fairfax's insurance and reinsurance companies employ disciplined underwriting practices with the objective of rejecting underpriced risks. The combined loss and expense ratio is the traditional measure of underwriting results of property and casualty companies. In any year when the ratio exceeds 100%, it generally indicates that unprofitable business has been underwritten.

A summary follows of the net premiums written and earned, and the loss, expense and combined ratios, for the past sixteen years for Fairfax's insurance companies and, for Fairfax's reinsurance companies, for the five years that Fairfax has owned these companies.

Insurance

	NET PREMIUMS		RATIOS		
	Written *($000)*	**Earned** *($000)*	**Loss** *(%)*	**Expense** *(%)*	**Combined** *(%)*
1985	23,415	14,049	96	30	126
1986	55,992	40,885	72	23	95
1987	71,378	62,012	73	25	98
1988	68,224	66,265	73	19	92
1989	35,477	40,444	100	40	140
1990	74,487	78,427	82	31	113
1991	93,450	90,507	60	34	94
1992	128,664	118,854	79	35	114
1993	163,508	150,844	73	26	99
1994	411,570	400,559	74	30	104
1995	864,589	829,340	74	31	105
1996	879,687	864,169	75	31	106
1997	864,708	867,218	71	31	102
1998	1,310,141	1,402,771	78	33	111
1999	2,745,629	2,957,006	77	36	113
2000	3,112,176	3,073,133	85	35	120

In 2000, the combined ratio was well above 100% with a combined ratio of 102% for the Canadian insurance companies and 124% for the U.S. insurance companies. Since current management took over in September 1985 Fairfax has had combined ratios of less than 100% in five of the fifteen full years and greater than 100% in the remaining ten years.

Reinsurance

	NET PREMIUMS		RATIOS		
	Written ($000)	Earned ($000)	Loss (%)	Expense (%)	Combined (%)
1996	163,392	166,719	62	34	96
1997	527,919	593,423	72	35	107
1998	966,466	992,080	80	36	116
1999	1,276,912	1,275,245	85	34	119
2000	1,222,916	1,224,213	71	37	108

In 2000, the combined ratio decreased to 108% from 119% in 1999. Excluding international catastrophe-related losses of $127.8 million, the combined ratio was 109.5% in 1999. There were minimal catastrophe losses in 2000.

Balance Sheet Analysis

Cash and short term investments and **Marketable securities** consist of the holding company's cash deposits and short term investments which it maintains as a safety net to ensure that it can cover its debt service and operating requirements for some years even if its insurance subsidiaries pay no dividends (see the discussion on page 86). Cash and short term investments include the company's bank operating account, overnight bank deposits and investments in short term government treasury bills ($450 million). Marketable securities include short term government bonds ($39 million) and the company's investment in S&P500 Index put contracts ($56 million).

Accounts receivable and other primarily consists of premiums receivable (net of provisions for uncollectible amounts) of $1.9 billion, funds withheld receivables from cedants and other reinsurance balances of $400 million, accrued interest of $150 million and prepaid expenses and other accounts receivable of $467 million.

Recoverable from reinsurers includes future recoveries on unpaid claims ($9.5 billion), reinsurance receivable on paid losses ($1.2 billion) and unearned premiums from reinsurers ($400 million). Please see Reinsurance Recoverables beginning on page 76 for a detailed discussion of amounts recoverable from reinsurers.

Investments in Hub and Zenith National represent Fairfax's investment in 42%-owned Hub International Limited ($111 million) and 39%-owned Zenith National Insurance Corp. ($285 million), both of which are publicly listed companies (the combined market value of these investments was $402 million at December 31, 2000).

Deferred premium acquisition costs (DPAC) consist of brokers' commissions and premium taxes. These are deferred, together with the related unearned premiums (UPR), and amortized to income over the term of the underlying insurance policies. Unlike many companies in the insurance industry, the company does not defer internal underwriting costs as part of DPAC and the recoverability of DPAC is determined without giving credit to investment income. The ratio of DPAC to UPR (17.2% at December 31, 2000) varies from time to time depending on the mix of business being written and the estimated recoverability of DPAC given expected loss ratios on the UPR.

Future income taxes represent amounts expected to be recovered in future years from the taxation authorities in the countries in which the company operates. At December 31, 2000 future income taxes consisted of $717 million of capitalized operating and capital losses ($785 million gross less a valuation allowance of $68 million), and timing differences of $559 million which represent expenses recorded in the financial statements but not yet deducted for income tax purposes. The capitalized operating losses relate primarily to the U.S. companies (including $430 million arising on the acquisition of TIG in 1999) as well as to the Canadian holding company, CTR and Sphere Drake. The company expects to realize the benefit of these capitalized losses from future profitable operations. The valuation allowance recognizes the uncertainty in realizing the benefit of certain of the operating losses depending on the jurisdiction and on the time limit before the losses expire. The timing differences principally relate to insurance-related balances such as claims, DPAC and UPR; such timing differences are expected to continue for the foreseeable future in light of the company's ongoing operations.

Goodwill arises on the acquisition of companies where the purchase price paid exceeds the fair value of the underlying net tangible assets acquired. Goodwill at December 31, 2000 arises from Lindsey Morden ($226 million), Lombard's acquisition of brokers in 2000 ($16 million), C&F's acquisition of Seneca and Transnational in 2000 ($12 million), Ranger ($3 million) and Hamblin Watsa ($3 million). Lindsey Morden's goodwill is amortized to income on a straight line basis over 40 years while the other companies' goodwill is amortized to income on a straight line basis over ten years.

Other assets include loans receivable and shares held in connection with the company's management share purchase and restricted stock grant programs ($60 million) and miscellaneous other balances.

Accounts payable and accrued liabilities include employee related liabilities, amounts due to brokers and agents including contingent commissions, liabilities for operating expenses incurred in the normal course of business, dividends payable to policyholders, salvage and subrogation payable and other similar balances.

Funds withheld payable to reinsurers represent premiums and accumulated accrued interest (at rates ranging from 5.75% to 8.0% per annum) on finite risk and aggregate stop loss reinsurance treaties, principally relating to Odyssey America Re ($480 million), TIG ($405 million), C&F ($181 million) and Fairfax's corporate insurance cover with Swiss Re ($116 million). The companies retain ownership of the underlying investments. Claims payable under such treaties are paid first out of the funds withheld payable balances.

Provision for claims consists of the gross amount of individual case reserves established by the insurance companies, individual case estimates reported by ceding companies to the reinsurance companies and management's estimate of claims incurred but not reported (IBNR) based on the volume of business currently in force and the historical experience on claims. Please see Provision for Claims beginning on the next page for a detailed discussion of the company's provision for claims.

Unearned premiums are described above under Deferred premium acquisition costs.

Non-controlling interests represent the minority shareholders' 72.5% share of the underlying net assets of TRG ($571 million) and 33.5% share of the underlying net assets of Lindsey Morden ($74 million). All of the assets and liabilities, including long term debt of these two companies, are included in the company's consolidated balance sheet.

Excess of net assets acquired over purchase price paid (negative goodwill) represents the aggregate unamortized amount of such excess, which arose as a result of the company's acquisition of certain companies at prices less than the fair value of the underlying net tangible assets acquired. Please see pages 57 and 58 for a detailed discussion of the company's negative goodwill.

Provision for Claims

Claim provisions are established by the case method as claims are reported. The provisions are subsequently adjusted as additional information on the estimated amount of a claim becomes known during the course of its settlement. A provision is also made for management's calculation of factors affecting the future development of claims including IBNR based on the volume of business currently in force and the historical experience on claims.

As time passes, more information about the claims becomes known and provision estimates are appropriately adjusted upward or downward. Because of the estimation elements encompassed in this process, and the time it takes to settle many of the more substantial claims, several years are required before a meaningful comparison of actual losses to the original provisions can be developed.

The development of the provision for claims is shown by the difference between estimates of reserves as of the initial year-end and the re-estimated liability at each subsequent year-end. This is based on actual payments in full or partial settlement of claims, plus re-estimates of the reserves required for claims still open or claims still unreported. Unfavourable development means that the original reserve estimates were lower than subsequently indicated.

The following table presents a reconciliation of the provision for claims and loss adjustment expense (LAE) for the insurance, reinsurance and runoff lines of business for the past five years. As shown in the table, the sum of the provision for claims for all of Fairfax's insurance, reinsurance and runoff subsidiaries is $20,225.8 million as at December 31, 2000 – the amount shown as Provision for claims on Fairfax's balance sheet on page 29. The "Other" shown in the following table was the $14 million Fairfax indemnification of Ranger reserves.

Reconciliation of Provision for Claims and LAE as at December 31

	2000 (*$000*)	**1999** (*$000*)	**1998** (*$000*)	**1997** (*$000*)	**1996** (*$000*)
Insurance subsidiaries owned throughout the year – net of indemnification	5,538,484	4,258,180	1,107,551	978,498	956,704
Insurance subsidiaries acquired during the year	71,392	1,187,246	3,802,794	–	–
Total insurance subsidiaries	5,609,876	5,445,426	4,910,345	978,498	956,704
Reinsurance subsidiaries owned throughout the year	3,641,344	2,732,941	2,981,663	1,215,130	13,363
Reinsurance subsidiaries acquired during the year	–	1,394,859	1,362,274	1,869,526	1,138,865
Total reinsurance subsidiaries	3,641,344	4,127,800	4,343,937	3,084,656	1,152,228
Runoff subsidiaries owned throughout the year	2,307,647	1,733,009	–	–	–
Runoff subsidiaries acquired during the year	–	873,276	–	–	–
Total runoff subsidiaries	2,307,647	2,606,285	–	–	–
Federated Life	30,725	28,500	26,675	24,626	23,095
Other	–	–	14,000	14,000	14,000
Total provision for claims and LAE	11,589,592	12,208,011	9,294,957	4,101,780	2,146,027
Reinsurance gross-up	8,636,239	8,234,188	3,866,258	2,220,957	1,147,422
Total including gross-up	20,225,831	20,442,199	13,161,215	6,322,737	3,293,449

The seven tables that follow show the reconciliation and the reserve development of the insurance (Canadian and U.S.), reinsurance and runoff subsidiaries' provision for claims, before the company's US$1 billion corporate insurance cover from Swiss Re. The commentary to the various tables discloses the group's share of the cession to the Swiss Re corporate cover. Because business is done in various locations, there will necessarily be some distortions caused by foreign exchange fluctuations. The insurance subsidiaries' tables are presented in Canadian dollars for the Canadian subsidiaries and in U.S. dollars for the U.S. subsidiaries (Falcon is included with the U.S. insurance subsidiaries for convenience). The reinsurance and runoff subsidiaries' tables are presented in U.S. dollars as the reinsurance and runoff businesses are substantially transacted in that currency.

Canadian Insurance Subsidiaries

The following table shows for Fairfax's Canadian insurance subsidiaries the provision for claims liability for unpaid losses and LAE as originally and as ultimately estimated for the years 1996 through 2000. The favourable or unfavourable development from prior years is credited or charged to each year's earnings.

Reconciliation of Provision for Claims – Canadian Insurance Subsidiaries

	2000 *($000)*	**1999** *($000)*	**1998** *($000)*	**1997** *($000)*	**1996** *($000)*
Provision for claims and LAE at January 1	890,360	818,840	764,052	746,119	695,328
Incurred losses on claims and LAE					
Provision for current accident year's claims	502,808	560,961	545,306	553,902	482,970
Increase (decrease) in provision for prior accident years' claims	(17,098)	(8,010)	(2,464)	(11,974)	(16,692)
Total incurred losses on claims and LAE	485,710	552,951	542,842	541,928	466,278
Payments for losses on claims and LAE					
Payments on current accident year's claims	(214,955)	(230,996)	(239,426)	(285,067)	(195,604)
Payments on prior accident years' claims	(264,999)	(250,435)	(248,628)	(238,928)	(219,883)
Total payments for losses on claims and LAE	(479,954)	(481,431)	(488,054)	(523,995)	(415,487)
Provision for claims and LAE at December 31	896,116	890,360	818,840	764,052	746,119

The company strives to establish adequate provisions at the original valuation date. It is the company's objective to have favourable development from the past. The reserves will always be subject to upward or downward development in the future.

The following table shows for Fairfax's Canadian insurance subsidiaries the original provision for claims reserves including LAE at each calendar year-end commencing in 1990 with the subsequent cumulative payments made from these years and the subsequent re-estimated amount of these reserves. The following Canadian insurance subsidiaries' reserves are included from the respective years in which such subsidiaries were acquired:

	Year Acquired
Markel	1985
Federated	1990
Commonwealth	1990
Lombard (including CRC (Bermuda))	1994

Provision for Canadian Insurance Subsidiaries' Claims Reserve Development

As at December 31	1990 and prior ($000)	1991 ($000)	1992 ($000)	1993 ($000)	1994 ($000)	1995 ($000)	1996 ($000)	1997 ($000)	1998 ($000)	1999 ($000)	2000 ($000)
Provision for claims including LAE	192,372	168,393	179,587	185,010	673,789	695,328	746,119	764,052	818,840	890,360	896,116
Cumulative payments as of:											
One year later	44,055	48,050	56,824	62,955	233,811	219,883	238,928	248,628	250,435	264,999	
Two years later	76,947	75,403	87,878	105,537	351,600	355,035	386,447	392,699	409,855		
Three years later	98,150	94,834	110,565	127,418	457,680	455,301	494,014	504,796			
Four years later	115,417	110,838	126,123	147,296	525,453	531,979	577,065				
Five years later	127,003	120,435	137,732	159,482	577,504	585,789					
Six years later	135,020	128,060	145,986	166,015	612,691						
Seven years later	142,080	134,465	150,589	170,919							
Eight years later	147,015	138,286	154,133								
Nine years later	149,732	141,347									
Ten years later	152,512										
Reserves re-estimated as of:											
One year later	175,138	168,001	179,948	187,819	677,938	678,636	734,145	761,588	810,830	873,262	
Two years later	173,992	157,849	174,820	191,825	676,826	692,888	743,443	758,562	808,334		
Three years later	165,753	157,671	171,833	197,833	685,675	704,431	748,532	756,958			
Four years later	166,797	156,291	177,451	198,650	688,769	707,148	750,204				
Five years later	165,625	158,366	177,370	199,317	695,907	705,680					
Six years later	167,289	161,088	177,964	197,691	694,477						
Seven years later	169,803	162,501	175,936	198,798							
Eight years later	171,625	160,606	177,982								
Nine years later	170,215	161,868									
Ten years later	171,616										
Favourable (unfavourable) development	20,756	6,525	1,605	(13,788)	(20,688)	(10,352)	(4,085)	7,094	10,506	17,098	

The Canadian insurance subsidiaries had a net redundancy (favourable development) of $17.1 million during 2000, primarily relating to conservative reserving at Lombard, Federated and Markel, partially offset by unfavourable development on Commonwealth's casualty book. The net deficiency in 1993 resulted from the impact of U.S. floods late in the year for which Commonwealth underestimated the ultimate losses. The net deficiency in 1994 relates to the impact of Lombard's increase in its casualty retention which was initially underestimated by the company. The net deficiency in 1995 relates to an excess of loss contract assumed by CRC (Bermuda) which had higher than expected losses. The net redundancies on 1998 and prior losses for the Canadian insurance group of $14.4 million in 2000 reduced the cession to the Swiss Re corporate cover.

Management is pleased with the generally favourable development for the Canadian insurance subsidiaries over the last five years. Future development could be significantly different from the past due to many unknown factors.

U.S. Insurance Subsidiaries

The following table shows for Fairfax's U.S. insurance subsidiaries the provision for claims liability for unpaid losses and LAE as originally and as ultimately estimated for the years 1996 through 2000. The favourable or unfavourable development from prior years is credited or charged to each year's earnings.

Reconciliation of Provision for Claims – U.S. Insurance Subsidiaries

	2000 (US$000)	**1999** (US$000)	**1998** (US$000)	**1997** (US$000)	**1996** (US$000)
Provision for claims and LAE at January 1 for Ranger, for C&F and Falcon beginning in 1999 and for TIG beginning in 2000	3,138,611	2,693,929	184,003	187,644	157,804
Incurred losses on claims and LAE					
Provision for current accident year's claims	1,317,131	624,666	104,477	105,462	111,607
Increase in provision for prior accident years' claims	284,819	29,753	43,821	8,681	25,352
Total incurred losses on claims and LAE	1,601,950	654,419	148,298	114,143	136,959
Payments for losses on claims and LAE					
Payments on current accident year's claims	(434,626)	(272,502)	(40,477)	(37,962)	(37,767)
Payments on prior accident years' claims	(1,215,145)	(755,292)	(70,130)	(79,822)	(69,352)
Total payments for losses on claims and LAE	(1,649,771)	(1,027,794)	(110,607)	(117,784)	(107,119)
Provision for claims and LAE at December 31	3,090,790	2,320,554	221,694	184,003	187,644
Provision for claims and LAE for Seneca Insurance at December 31	47,532	–	–	–	–
Provision for claims and LAE for TIG Specialty Insurance at December 31	–	818,057	–	–	–
Provision for claims and LAE for C&F at December 31	–	–	2,466,685	–	–
Provision for claims and LAE for Falcon at December 31	–	–	5,550	–	–

	2000 (US$000)	1999 (US$000)	1998 (US$000)	1997 (US$000)	1996 (US$000)
Provision for claims and LAE for U.S. insurance subsidiaries at December 31 before indemnification	3,138,322	3,138,611	2,693,929	184,003	187,644
Reserve indemnification	–	–	(34,000)	(34,000)	(34,000)
Provision for claims and LAE for U.S. insurance subsidiaries after indemnification	3,138,322	3,138,611	2,659,929	150,003	153,644
Exchange rate	*1.5020*	*1.4513*	*1.5382*	*1.4296*	*1.3706*
Converted to Canadian dollars	C$4,713,760	C$4,555,066	C$4,091,505	C$214,446	C$210,585

The company strives to establish adequate provisions at the original valuation date. It is the company's objective to have favourable development from the past. The reserves will always be subject to upward or downward development in the future.

The following table shows for Fairfax's U.S. insurance subsidiaries the original provision for claims reserves including LAE at each calendar year-end commencing in 1993 (the date of Ranger's acquisition) with the subsequent cumulative payments made from these years and the subsequent re-estimated amounts of these reserves. The following U.S. insurance subsidiaries' reserves are included from the respective years in which such subsidiaries were acquired:

	Year Acquired
Ranger	1993
C&F	1998
Falcon	1998
TIG	1999
Seneca	2000

Provision for U.S. Insurance Subsidiaries' Claims Reserve Development

As at December 31	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
	(US$000)	*(US$000)*	*(US$000)*	*(US$000)*	*(US$000)*	*(US$000)*	*(US$000)*	*(US$000)*
Provision for claims including LAE	173,887	154,870	157,804	187,644	184,003	2,693,929	3,138,611	3,138,322
Cumulative payments as of:								
One year later	78,544	89,093	69,352	79,822	70,130	755,292	1,215,145	
Two years later	141,662	130,040	119,882	125,286	128,042	1,363,198		
Three years later	169,259	158,738	135,225	157,508	168,914			
Four years later	185,800	166,941	155,229	184,072				
Five years later	188,254	179,913	171,800					
Six years later	194,391	193,936						
Seven years later	197,677							
Reserves re-estimated as of:								
One year later	171,418	191,038	183,156	196,325	227,824	2,723,682	3,423,430	
Two years later	199,586	206,856	190,861	229,083	236,318	2,715,758		
Three years later	214,492	216,783	210,832	236,311	251,940			
Four years later	222,191	226,006	212,900	246,683				
Five years later	227,579	229,793	216,184					
Six years later	229,418	231,965						
Seven years later	232,869							
Favourable (unfavourable) development	(58,982)	(77,095)	(58,380)	(59,039)	(67,937)	(21,829)	(284,819)	

Ranger has had significant net deficiencies in each year since 1993. Its generally unfavourable development over the years has been a source of significant concern. Ranger's new senior management team took the necessary steps to eliminate and terminate unprofitable lines of business (Petroleum and Natural Gas Marketers, Mississippi Insurance Managers and California Artisan Contractors) in 1999. Ranger's net adverse development of US$12.7 million in 2000 resulted from its discontinued California Artisan Contractors program where the losses continued to develop with a greater frequency than had been expected (US$10.4 million) and its 1985 and prior discontinued assumed reinsurance program (US$6.5 million), offset by redundancies of US$4.2 million in its continuing programs.

TIG and C&F's net aggregate adverse development of US$272.1 million in 2000 included US$115.0 million of unfavourable development on the 1999 accident year, reflecting the underpricing conditions which existed at the bottom of the U.S. insurance market. In 1999, new management at C&F and TIG had strengthened former management's estimated 1999 loss ratios by about 10 percentage points. However, like many other U.S. insurance companies, the ultimate losses were still underestimated, resulting in strengthening of the 1999 accident year loss ratios by 6% to 7% of 1999 net earned premiums. The remaining US$172.5 million of TIG and C&F's gross adverse development in 2000 was on 1998 and prior years, primarily relating to TIG's California Construction Defect exposures where the company experienced a higher level of claims emergence than had been previously estimated, and was partially offset by C&F's redundancy of US$15.4 million on its unallocated loss and loss adjustment expense reserve of prior years. Of the total net adverse development on 1998 and prior losses for the U.S. insurance group in 2000, $170.6 million formed part of the cession to the Swiss Re corporate cover.

Management is disappointed with the continuing adverse development in each of the last five years and since the acquisition of Ranger in 1993. Future development could be significantly different from the past due to many unknown factors.

Reinsurance Subsidiaries

The following table shows for Fairfax's reinsurance subsidiaries the provision for claims liability for unpaid losses and LAE as originally and as ultimately estimated for the years 1997 through 2000. The favourable or unfavourable development from prior years is credited or charged to each year's earnings.

Reconciliation of Provision for Claims – Reinsurance Subsidiaries

	2000 *(US$000)*	**1999** *(US$000)*	**1998** *(US$000)*	**1997** *(US$000)*
Provision for claims and LAE at January 1 (in 1997, only for Odyssey Reinsurance (New York) and Wentworth)	2,844,208	2,824,039	2,157,706	858,469
Provision for claims and LAE for Sphere Drake, Odyssey Re Stockholm and Dai Tokyo (UK) (transferred to runoff)	(67,434)	(1,264,470)	–	–
Adjusted provision for claims and LAE at January 1	2,776,774	1,559,569	2,157,706	858,469
Incurred losses on claims and LAE				
Provision for current accident year's claims	523,636	623,730	504,347	150,166
Increase (decrease) in provision for prior accident years' claims	62,124	(15,909)	26,017	(7,901)
Total incurred losses on claims and LAE	585,760	607,821	530,364	142,265
Payments for losses on claims and LAE				
Payments on current accident year's claims	(36,882)	(6,392)	(292,325)	(31,055)
Payments on prior accident years' claims	(901,323)	(277,900)	(457,334)	(119,698)
Total payments for losses on claims and LAE	(938,205)	(284,292)	(749,659)	(150,753)
Provision for claims and LAE at December 31	2,424,329	1,883,098	1,938,411	849,981
Provision for claims and LAE for CTR and Sphere Drake at December 31	–	–	–	1,307,725
Provision for claims and LAE for Odyssey Re Stockholm and ORC Re at December 31	–	–	885,628	–
Provision for claims and LAE for TIG Re at December 31	–	961,110	–	–
Provision for claims and LAE for reinsurance subsidiaries at December 31	2,424,329	2,844,208	2,824,039	2,157,706
Exchange rate	*1.5020*	*1.4513*	*1.5382*	*1.4296*
Converted to Canadian dollars	C$3,641,344	C$4,127,800	C$4,343,937	C$3,084,656

The company assumed all of Dai Tokyo (UK)'s outstanding claims as of December 31, 1999. In 2000, the company purchased Dai Tokyo (UK) Ltd. and the claims (which primarily resulted from a participation in Sphere Drake's stamp) were transferred to runoff.

The company strives to establish adequate provisions at the original valuation date. It is the company's objective to have favourable development from the past. The reserves will always be subject to upward or downward development in the future.

The following table shows for Fairfax's reinsurance subsidiaries the original provision for claims reserves including LAE at each calendar year-end commencing in 1996 (the date of Odyssey Reinsurance (New York)'s acquisition) with the subsequent cumulative payments made from these years and the subsequent re-estimated amount of these reserves. The following reinsurance subsidiaries' reserves are included from the respective years in which such subsidiaries were acquired (or, in the case of Wentworth, established):

Wentworth	1990
Odyssey Reinsurance (New York)	1996
CTR	1997
Sphere Drake (transferred to runoff July 1, 1999)	1997
TIG Re (now Odyssey America Re)	1999

Provision for Reinsurance Subsidiaries' Claims Reserve Development

As at December 31	**1996** *(US$000)*	**1997** *(US$000)*	**1998** *(US$000)*	**1999** *(US$000)*	**2000** *(US$000)*
Provision for claims including LAE	858,469	2,157,706	2,824,039	2,844,208	2,424,329
Provision for claims including LAE for Sphere Drake, Odyssey Re Stockholm and Dai Tokyo (UK) (transferred to runoff)	–	(886,508)	(1,264,470)	(67,434)	–
Adjusted provision for claims including LAE	858,469	1,271,198	1,559,569	2,776,774	2,424,329
Cumulative payments as of:					
One year later	119,698	205,256	277,900	901,323	
Two years later	229,077	362,558	392,808		
Three years later	314,048	527,977			
Four years later	387,578				
Reserves re-estimated as of:					
One year later	850,568	1,275,299	1,543,660	2,838,898	
Two years later	834,308	1,237,397	1,598,834		
Three years later	857,159	1,245,401			
Four years later	868,882				
Favourable (unfavourable) development	(10,413)	25,797	(39,265)	(62,124)	

The unfavourable development of US$62.1 million in 2000 was primarily due to adverse development on CTR's now discontinued facultative business from the 1998 underwriting year and unfavourable foreign exchange effect on CTR's reserves. The favourable development in 1998 was principally due to a favourable foreign exchange effect on CTR's reserves. Of the total net adverse development on 1998 and prior losses for the reinsurance group in 2000, US$19.8 formed part of the cession to the Swiss Re corporate cover.

Future development could be significantly different from the past due to many unknown factors.

Runoff Subsidiaries

The following table shows for Fairfax's runoff subsidiaries the provision for claims liability for unpaid losses and LAE as originally and as ultimately estimated since 1998. The favourable or unfavourable development from prior years is credited or charged to each year's earnings.

Reconciliation of Provision for Claims – Runoff Subsidiaries

	2000 *(US$000)*	**1999** *(US$000)*
Provision for claims and LAE at January 1 for Odyssey Re Stockholm and Sphere Drake and, in 2000, TRG	1,795,828	1,264,470
Provision on claims and LAE for Dai Tokyo (UK) (transferred to runoff)	67,434	–
	1,863,262	1,264,470
Incurred losses on claims and LAE		
Foreign exchange effect on claims	4,992	(19,056)
Provision for current accident year's claims	155,633	187,790
Increase in provision for prior accident years' claims	123,109	40,709
Total incurred losses on claims and LAE	283,734	209,443
Payments for losses on claims and LAE		
Payments on current accident year's claims	(46,699)	(99,447)
Payments on prior accident years' claims	(563,914)	(180,358)
Total payments for losses on claims and LAE	(610,613)	(279,805)
Provision for claims and LAE at December 31	1,536,383	1,194,108
Provision for claims and LAE for TRG at December 31	–	601,720
Provision for claims and LAE for runoff subsidiaries at December 31	1,536,383	1,795,828
Exchange rate	*1.5020*	*1.4513*
Converted to Canadian dollars	C$2,307,647	C$2,606,285

The unfavourable reserve development of US$123.1 million in 2000 included additional development of reserves at Sphere Drake in 1996 and subsequent underwriting years of US$106.1 million (this was not related to the litigation referred to in note 11 to the

consolidated financial statements), and adverse development on TRG's 1992 and prior claims of US$37.0 million, offset by favourable development of US$20.0 million on Odyssey Re Stockholm claims. Total net adverse development on 1998 and prior losses for the runoff group of US$91.6 million in 2000, principally relating to unfavourable development on Sphere Drake's claims on the 1997 and 1998 underwriting years, formed part of the cession to the Swiss Re corporate cover. The runoff claims reserves are expected to be paid out approximately half over the next five years and three-quarters over the next ten years.

The company strives to establish adequate provisions at the original valuation date. It is the company's objective to have favourable development from the past. The reserves will always be subject to upward or downward development in the future.

Asbestos, Pollution and Other Hazards

A number of Fairfax's subsidiaries wrote insurance and reinsurance policies prior to their acquisition by Fairfax which involve asbestos-related, environmental pollution and other hazards (APH) coverage, primarily in the United States. Following is an analysis of Fairfax's gross and net reserves from APH exposures at year-end 2000 and 1999 and the movement in gross and net reserves for those years.

	2000		1999	
	Gross *(US$000)*	**Net** *(US$000)*	**Gross** *(US$000)*	**Net** *(US$000)*
Provision for APH claims and LAE at January 1	2,634,714	962,394	864,196	595,952
APH losses and LAE incurred during the year	420,688	203,131	92,390	55,734
APH losses and LAE paid during the year	(675,483)	(139,873)	(93,886)	(72,930)
Provision for APH claims and LAE at December 31	2,379,919	1,025,652	862,700	578,756
Dai Tokyo (UK) provision for APH claims and LAE at December 31	31,548	23,623	–	–
TIG provision for APH claims and LAE at December 31	–	–	159,398	51,939
International Insurance (TRG) provision for APH claims and LAE at December 31	–	–	1,592,312	322,504
Odyssey Re Stockholm provision for APH claims and LAE at December 31	–	–	20,304	9,195
Total provision for APH claims and LAE at December 31	2,411,467	1,049,275	2,634,714	962,394
Comprising:				
Outstanding	958,616	267,796	1,047,482	266,060
IBNR	1,452,851	781,479	1,587,232	696,334
Survival ratio – 3 year (before indemnifications)		9.8		10.5
Survival ratio – 3 year (after indemnifications)		14.7		19.6

The 1999 comparatives have been restated to include other hazards claims for TRG and the APH claims and LAE for Odyssey Re Stockholm as at the end of the year; also, the net APH incurred and paid losses for 1999 now reflect the benefit of cessions under C&F's vendor indemnity.

The 2000 gross amount of US$2,411.5 million is included in the C$20,225.8 million shown as Provision for claims at December 31, 2000 on Fairfax's balance sheet on page 29.

The 3-year survival ratio represents the outstanding APH claims and LAE (including IBNR) at December 31 divided by the average paid APH claims for the last three years (including Fairfax's effective 27.5% economic interest in International Insurance). The survival ratio after

indemnifications includes one-half of the remaining indemnifications at December 31, 2000 for Odyssey Reinsurance (New York) (an internal indemnification as described on page 79), CTR, Sphere Drake, C&F and International Insurance and one-half of the remaining Swiss Re cover. The increase in the gross and net incurred and paid APH claims during 2000, and the resulting reduction in the 3-year survival ratios, resulted from the inclusion of TRG in the 2000 activity and the buyback and cancellation of two major APH-exposed policies by two of the companies (net paid losses of $28 million). Fairfax's 3-year survival ratio before and after indemnifications of 9.8 and 14.7 years respectively compares very favourably with A.M. Best Co's 3-year average survival ratio of 7.8 years for the U.S. property and casualty insurance industry (as set out in their study of U.S. property and casualty insurers' and reinsurers' December 31, 1999 asbestos and environmental claims reserve information, published in "Best's Viewpoint" dated October 26, 2000). A.M. Best's 3-year average survival ratio was adjusted to exclude US$1.6 billion in 1999 Fibreboard asbestos products losses (US$1.1 billion – CNA; US$0.5 billion – Chubb). Excluding the above-mentioned buyback and cancellation of two major APH-exposed policies, Fairfax's 3-year survival ratio, before and after indemnification, would be 11.1 and 16.7 years respectively.

Many insurance coverage issues and circumstantial uncertainties make the estimation of these reserves very difficult. Inconsistencies among the States with regard to coverage, occurrence definitions and Superfund reform can all affect the outcome of APH claims. Also, during 2000, there was renewed asbestos liability activity primarily relating to the emergence of so-called non-products liability claims. Generally, as asbestos defendants, especially manufacturers of products containing asbestos, exhaust available product hazard coverage, they are increasingly seeking to expand available insurance coverage by alleging that the asbestos claims to which they are subject are not product hazard claims, but are rather so-called non-products claims for which the liability limits of their insurance have not been exhausted.

These APH reserves are continuously monitored by management and are reviewed extensively by independent consulting actuaries.

Fairfax is protected against adverse development of these reserves at Odyssey Reinsurance (New York) (by an internal indemnification described on page 79), CTR, Sphere Drake, C&F and International Insurance from their levels at the time of acquisition of those companies (December 31, 1992 in the case of International Insurance) to the extent of the available indemnifications obtained in connection with those acquisitions, as discussed under Indemnifications on page 79, and at all Fairfax subsidiaries (including TIG but otherwise not at subsidiaries acquired after 1998) by the Swiss Re cover.

Reinsurance Recoverables

Fairfax's subsidiaries purchase certain reinsurance so as to reduce their liability on the insurance and reinsurance risks which they write. Fairfax strives to minimize the credit risk of purchasing reinsurance through adherence to its internal reinsurance guidelines. To be an ongoing reinsurer of Fairfax, a company must have high A.M. Best and/or Standard & Poor's ratings and maintain capital and surplus exceeding $500 million. Most of the reinsurance balances for reinsurers rated B++ and lower or which are not rated were inherited by Fairfax on acquisition of a subsidiary. The risk of uncollectible reinsurance has been mitigated by vendor indemnifications and the purchase of additional reinsurance protection, as outlined under Indemnifications below. The following table shows Fairfax's top twenty reinsurance groups (based on gross reinsurance recoverable) at December 31, 2000. These twenty reinsurance groups represent 80.1% of Fairfax's $11,099.5 million in total reinsurance recoverable (which total is net of bad debt reserves aggregating $919.9 million).

Group	**Principal Reinsurers**	**A.M. Best Rating (or S&P equivalent)(1)**	**Gross Reinsurance Recoverable** *($000)*
Swiss Re	European Reinsurance Company of Zurich	A++	1,488,805
General Electric	ERC Frankona Ruck	A++	977,006
Zurich Reinsurance	Zurich Reinsurance (N.A.) Inc.	A+	769,614
Munich Re	American Reinsurance	A++	763,845
Xerox	Ridge Reinsurance	NR	640,228(2)
Equitas	Equitas	NR	611,745
Great West Life	London Life & Casualty Reinsurance	A	566,708
Gerling Global	Gerling Global International Re	AA–(3)	390,239
Aegon	ARC Re & Pyramid Insurance Companies	NR	374,380(2)
St. Paul	Mountain Ridge Ins. Co. of N.A.(2)	NR	342,186
Ace	Insurance Co. of North America	A	318,936
Lloyd's of London Underwriters	Lloyd's of London Underwriters	A	307,528
Berkshire Hathaway	General Reinsurance Corp. (USA)	A++	288,835
CNA	Continental Casualty	A	220,581
Royal Sun Alliance	Security Ins. Co. of Hartford	A+	164,367
Hartford(4)	New England Re	B+	161,183
KWELM	Walbrook	NR	140,093
Groupama	GAN Life	A+	135,623
Nationwide	Nationwide Mutual Insurance Company	A+	120,122
XL	NAC Re	A+	110,923
Other reinsurers			3,126,462
Total reinsurance recoverable			12,019,409
Provision for uncollectible reinsurance			919,947
Net reinsurance recoverable			11,099,462

(1) Of principal reinsurer

(2) Fully secured by letters of credit and/or trust funds (gross reinsurance recoverable from Mountain Ridge is $188.5 million)

(3) S&P rating

(4) Rated A+ by A.M. Best

The following table shows the classification of the total reinsurance recoverable by credit rating of the responsible reinsurers:

	A.M. Best Rating (or S&P equivalent)	Gross Reinsurance Recoverable *($000)*	Outstanding Balances for which Security is Held *($000)*	Provision for Uncollectible Reinsurance *($000)*	Net Unsecured Reinsurance Recoverable *($000)*
	A++	2,824,600	165,617	3,258	2,655,725
	A+	2,221,131	545,891	5,259	1,669,981
	A	2,492,249	737,658	4,569	1,750,022
	A–	281,000	25,145	2,110	253,745
	B++	102,262	10,135	879	91,248
	B+	336,667	31,144	3,064	302,459
	B	19,669	1,436	4,242	13,991
	C/D	92,528	13,857	2,957	75,714
	E	81,284	2,188	7,074	72,022
	Not rated	3,568,019	1,964,327	751,795	851,897
Total reinsurance recoverable		12,019,409	3,497,398	785,207	7,736,804
Provision for uncollectible reinsurance					
– specific		785,207			
– general		134,740			
Net reinsurance recoverable		11,099,462			

To support gross reinsurance recoverable balances, Fairfax has the benefit of letters of credit, trust funds or offsetting balances payable totalling $3,497.4 million, as follows:

for reinsurers rated A– or better, Fairfax has security of $1,474.3 million against outstanding reinsurance recoverable of $7,819.0 million;

for reinsurers rated B++ or lower, Fairfax has security of $58.8 million against outstanding reinsurance recoverable of $632.4 million; and

for unrated reinsurers, Fairfax has security of $1,964.3 million against outstanding reinsurance recoverable of $3,568.0 million.

Equitas and Lloyd's are also required to maintain funds in Canada and the United States which are monitored by the applicable regulatory authorities. Fairfax has an aggregate provision for uncollectible reinsurance of $919.9 million at December 31, 2000 (of which only $15.2 million relates to reinsurers rated A– or higher) compared with unsecured reinsurance recoverable from reinsurers rated B++ or lower and unrated reinsurers totalling $2,177.3 million. Fairfax believes that this provision provides for all likely losses arising from uncollectible reinsurance at December 31, 2000.

Approximately 44% of the reinsurance balances for reinsurers rated B+ or lower or which are unrated were inherited on the acquisition of TRG in 1999. Fairfax purchased 100% of TRG's voting common shares for US$97 million which represents an effective 27.5% economic

interest in TRG's results of operations and net assets. Xerox retains all of TRG's participating non-voting preferred shares resulting in an effective 72.5% economic interest in TRG's results of operations and net assets. Xerox's wholly-owned subsidiary, Ridge Re, also provides TRG's wholly-owned subsidiary, International Insurance, with the vendor indemnity (unutilized coverage of $228 million at December 31, 2000) referred to under Indemnifications below. TRG's cessions to Ridge Re are fully collateralized by letters of credit in the same amount as the cessions. Accordingly, Fairfax's exposure to loss is limited to its US$97 million investment.

The following table shows the classification of the total reinsurance recoverable, excluding TRG-related balances, by credit rating of the responsible reinsurers:

	A.M. Best Rating (or S&P equivalent)	Gross Reinsurance Recoverable ($000)	Outstanding Balances for which Security is Held ($000)	Provision for Uncollectible Reinsurance ($000)	Net Unsecured Reinsurance Recoverable ($000)
	A++	2,642,861	113,775	2,749	2,526,337
	A+	1,959,856	508,047	406	1,451,403
	A	2,121,713	731,564	4,171	1,385,978
	A–	253,748	21,737	1,413	230,598
	B++	78,078	9,598	75	68,405
	B+	240,723	30,318	2,612	207,793
	B	12,382	904	4,171	7,307
	C/D	92,049	13,857	2,852	75,340
	E	56,752	2,188	4,279	50,285
	Not rated	1,874,775	1,499,911	103,929	270,935
Total reinsurance recoverable		9,332,937	2,931,899	126,657	6,274,381
Provision for uncollectible reinsurance					
– specific		126,657			
– general		134,740			
Net reinsurance recoverable		9,071,540			

Excluding TRG-related balances, Fairfax has gross outstanding reinsurance balances for reinsurers which are rated B+ or lower or which are unrated of $2,276.7 million for which it holds security of $1,547.2 million and has an aggregate provision for uncollectible reinsurance of $252.6 million (35% of the net exposure prior to such provision), leaving a net exposure of $476.9 million.

Fairfax is protected against adverse development of the reserves and unrecoverable reinsurance at Odyssey Reinsurance (New York) (by an internal indemnification described under Indemnifications below), CTR, Sphere Drake, C&F and International Insurance from their levels at the time of acquisition of those companies (December 31, 1992 in the case of International Insurance) to the extent of the available indemnifications obtained in connection with those acquisitions, as discussed under Indemnifications below. In addition, Fairfax has a US$1 billion cover from Swiss Re protecting it from adverse development in its

subsidiaries' (including TIG but otherwise not including subsidiaries acquired after 1998) claims reserves and uncollectible reinsurance at December 31, 1998.

Indemnifications

Shown below are the continuing indemnifications originally received by Fairfax on the acquisition of its various insurance and reinsurance subsidiaries. These indemnifications protect Fairfax from adverse development in the respective companies' claims reserves and unrecoverable reinsurance as at the end (or, as regards C&F, as of August 13) of the respective original years shown. Those indemnifications for which a settlement year is shown will be settled as of the end of the respective settlement years shown. The protected net reserves represent the respective companies' carried reserves, net of reinsurance recoverable, at December 31, 2000, which are subject to the related indemnification.

During 1999, the indemnity in respect of Odyssey Reinsurance (New York) was assumed by a Fairfax reinsurance subsidiary in consideration of a cash payment made to that reinsurer, which Fairfax believes represented fair value to assume that indemnity.

Year	Company	Amount *(millions)*	Amount *(C$millions)*	Unused Indemnifications at December 31, 2000 *(C$millions)*	Settlement Year	Protected Net Reserves at December 31, 2000 *(C$millions)*
1992	International Insurance (TRG)	US$ 578**	868**	228	None	446
1995*	Odyssey Reinsurance (New York)	US$ 175	263	134	2005	1,395
1995	CTR	FF 250	54	23	2005	232
1996	Sphere Drake	US$ 171	257	47	2006	649
1998	C&F	US$ 368**	553**	259	None	1,927
1998	All Fairfax subsidiaries owned at the end of 1998 and TIG (Swiss Re cover)	US$1,000***	1,502	715	None	6,858
			2,629	1,178		

* *This indemnity is provided by a Fairfax reinsurance subsidiary, as described above.*

** *After coinsurance.*

*** *Additional premium is payable as additional losses are ceded to this cover.*

Excluding International Insurance, at December 31, 2000 the unused indemnifications amount to 17% of protected net reserves.

The company has negotiated final settlement of the CTR indemnity, with closing subject to completion of final documentation.

Insurance Environment

The property and casualty insurance market continued to be very competitive in 2000 with combined ratios in Canada and the U.S. expected to be approximately 108% and 110% respectively, versus 105% and 108% respectively in 1999. Adverse development from very

inadequate pricing and 1999 year-end catastrophes negatively impacted on 2000 combined ratios. Significant restructuring and consolidation continues to take place in the industry. While prices started to increase in 2000, continued significant price increases are required to return the insurance industry to pricing adequacy and underwriting profitability. The industry continues to be highly competitive and significant excess capital and underwriting capacity remain to take advantage of firming prices.

Acquisitions

Effective August 31, 2000, C&F acquired Sen-Tech International Holdings, Inc. (and its wholly-owned subsidiary, Seneca Insurance Company, Inc. of New York). Effective December 21, 2000, C&F also purchased Transnational Insurance Company (a licensed excess and surplus lines shell company). The balance sheets of the two companies upon acquisition were as follows:

	Seneca *(US$ millions)*	**Transnational** *(US$ millions)*
Investments, including cash	102	15
Accounts receivable, including reinsurance	63	–
Other assets	13	–
Total assets	178	15
Provision for claims	78	–
Other liabilities	41	–
Shareholders' equity	59	15

The acquisition prices of US$65 million ($96 million) for the common shares of Seneca and US$17 million ($26 million) for the common shares of Transnational were paid in cash.

Interest and Dividend Income

The majority of interest and dividend income is earned by the insurance, reinsurance and runoff companies. Upon the acquisitions noted below, the respective amounts shown below were added to the company's portfolio investments.

Acquisition Date	Company Acquired	Portfolio Investments *($ millions)*
March 21, 1990	Federated	101
November 14, 1990	Commonwealth	130
December 31, 1993	Ranger	400
November 30, 1994	Lombard (including CRC (Bermuda))	684
May 31, 1996	Odyssey Reinsurance (New York)	1,490
February 27, 1997	CTR	764
December 3, 1997	Sphere Drake	1,068
August 13, 1998	Crum & Forster	4,955
September 4, 1998	Odyssey Re Stockholm	831
April 13, 1999	TIG	5,597
August 11, 1999	TRG	1,670

	Average Investments at Book Value *($000)*	Interest and Dividend Income: Pre-Tax Amount *($000)*	Pre-Tax Yield *(%)*	Pre-Tax Per Share *($)*	After-Tax Amount *($000)*	After-Tax Yield *(%)*	After-Tax Per Share *($)*
1985	29,060	2,445	8.45	0.87	1,271	4.37	0.45
1986	64,181	4,678	7.29	0.96	2,522	3.93	0.52
1987	109,825	8,042	7.32	1.10	5,499	5.01	0.77
1988	130,782	8,922	6.82	1.22	6,618	5.06	0.90
1989	135,703	11,628	8.57	1.51	8,537	6.29	1.11
1990	237,868	20,704	8.70	2.75	14,017	5.89	1.86
1991	338,461	26,051	7.70	4.44	17,731	5.24	3.02
1992	366,481	23,988	6.55	4.17	17,749	4.84	3.09
1993	418,207	23,251	5.56	3.78	17,994	4.30	2.92
1994	852,010	58,219	6.83	7.12	39,608	4.65	4.85
1995	1,608,054	89,354	5.56	10.00	73,664	4.58	8.25
1996	2,548,076	151,387	5.94	15.42	111,458	4.37	11.35
1997	4,584,569	254,562	5.55	23.64	174,408	3.80	16.19
1998	8,877,495	443,838	5.00	37.37	337,519	3.80	28.42
1999	14,684,044	752,980	5.13	56.48	492,033	3.35	36.91
2000	16,306,184	818,069	5.02	62.10	578,377	3.55	43.91

Interest and dividend income increased in 2000 due to the inclusion of TIG and TRG for a full year in 2000 compared with nine months and four months, respectively, in 1999. As shown, the pre-tax income yield decreased in 2000 to 5.02% due to lower interest rates, partially offset by a weaker Canadian dollar. The after-tax income yield increased in 2000 because of more investment income earned in lower tax rate jurisdictions. Since 1985, pre-tax interest and dividend income per share has compounded at 32.9% per year.

Investments for the past sixteen years are shown in the following table, the first five columns of which show them at their average carrying values for each year, and the final two columns of which show them at year-end.

	Cash and Short Term Investments	Bonds	Preferreds	Common	Total Investments Average	Total Investments Year-End	Total Investments Per Share
	($000)	($000)	($000)	($000)	($000)	($000)	($)
1985	10,526	15,388	732	2,414	29,060	32,728	6.55
1986	16,605	24,523	7,979	15,074	64,181	95,633	13.65
1987	28,025	26,242	16,516	39,042	109,825	124,016	16.90
1988	29,843	23,575	25,191	52,173	130,782	137,548	18.79
1989	20,623	28,528	32,212	54,340	135,703	133,858	18.30
1990	33,596	99,220	45,652	59,400	237,868	335,740	61.30
1991	60,099	140,177	75,685	62,500	338,461	341,180	62.54
1992	77,929	108,818	99,821	79,913	366,481	396,240	65.44
1993	102,968	90,682	118,604	105,953	418,207	848,774	106.70
1994	226,205	303,859	132,138	189,808	852,010	1,551,343	173.25
1995	297,989	796,310	157,017	356,738	1,608,054	1,668,656	188.14
1996	470,651	1,462,064	168,438	446,923	2,548,076	3,454,521	330.07
1997	822,569	2,989,063	226,936	546,001	4,584,569	5,795,703	520.62
1998	1,116,239	6,856,713	213,311	691,232	8,877,495	12,108,374	998.03
1999	1,858,597	11,583,341	144,454	1,097,653	14,684,045	17,478,710	1,298.57
2000	2,530,149	12,532,538	102,070	1,141,427	16,306,184	15,290,739	1,167.15

Total investments and total investments per share decreased at year-end 2000 due to the payment of claims by the U.S. insurance companies while realizing lower premium volumes as those companies re-underwrote their business, the ongoing reduction of the runoff claims portfolios and the payment of 1999 catastrophe losses, partially offset by a weaker Canadian dollar. Since 1985, investments per share have compounded at 41.3% per year.

The breakdown of the fixed income portfolio, by the higher of the S&P and Moody's credit ratings, as at December 31, 2000 was as follows:

Credit Rating	Book Value *($000)*	Market Value *($000)*	Unrealized gain/(loss) *($000)*
AAA	6,127,028	5,974,621	(152,407)
AA	1,450,693	1,395,031	(55,662)
A	2,590,931	2,470,329	(120,602)
BBB	1,478,599	1,375,829	(102,770)
BB	58,156	39,691	(18,465)
B	20,551	17,739	(2,812)
C	20,372	10,359	(10,013)
NR	11,986	11,416	(570)
Total	11,758,316	11,295,015	(463,301)

86.5% of the fixed income portfolio is rated A or better.

Return on Investment Portfolio

The following table shows the performance of the investment portfolio for the past sixteen years. The total return includes all interest and dividend income, gains (losses) on the disposal of securities and the change in the unrealized gains (losses) during the year.

	Average Investments at Book Value *($000)*	Interest and Dividends Earned *($000)*	Realized Gains (Losses) after Provisions *($000)*	Change in Unrealized Gains (Losses) *($000)*	Total Return on Average Investments *($000)*	*(%)*
1985	29,060	2,455	459	878	3,792	13
1986	64,181	4,678	952	(352)	5,278	8
1987	109,825	8,042	9,159	(7,976)	9,225	8
1988	130,782	8,922	7,802	12,131	28,855	22
1989	135,703	11,628	15,458	(6,272)	20,814	15
1990	237,868	20,704	2,278	(32,943)	(9,961)	(4)
1991	338,461	26,051	(4,512)	27,866	49,405	15
1992	366,481	23,988	3,400	(11,197)	16,191	4
1993	418,207	23,251	27,822	28,792	79,865	19
1994	852,010	58,219	20,026	(42,407)	35,838	4
1995	1,608,054	89,354	71,912	45,438	206,704	13
1996	2,548,076	151,387	131,274	112,676	395,337	16
1997	4,584,569	254,562	206,773	(4,479)	456,856	10
1998	8,877,495	443,838	440,785	(117,169)	767,454	9
1999	14,684,045	752,980	121,670	(1,232,111)	(357,461)	(2)
2000	16,306,184	818,069	382,849	737,425	1,938,343	12

Investment gains (losses) have been an important component of Fairfax's net earnings since 1985. The amount has fluctuated significantly from period to period, but the amount of investment gains (losses) for any period has no predictive value and variations in amount from period to period have no practical analytic value. At December 31, 2000, the aggregate provision for losses on investments was $22.7 million (1999 – $26.4 million). At December 31, 2000 the Fairfax investment portfolio had an unrealized loss of $489.2 million compared to an unrealized loss at December 31, 1999 of $1,226.6 million.

The company has a long term value-oriented investment philosophy. It continues to expect fluctuations in the stock market.

Capital Resources

At December 31, 2000, total capital, comprising shareholders' equity and non-controlling (minority) interests, was $4,025.5 million, compared to $3,917.6 million at December 31, 1999.

The following table shows the level of capital as at December 31 for the past five years:

	2000	**1999**	**1998**	**1997**	**1996**
			($ millions)		
Non-controlling interests	645.2	601.6	87.9	20.5	21.0
Common shareholders' equity	3,180.3	3,116.0	2,238.9	1,395.7	911.1
Preferred stock	200.0	200.0	–	–	–
	4,025.5	3,917.6	2,326.8	1,416.2	932.1

Fairfax's consolidated balance sheet as at December 31, 2000 continues to reflect significant financial strength. Fairfax's common shareholders' equity has increased from $3,116.0 million at December 31, 1999 to $3,180.3 million at December 31, 2000.

The company has issued and repurchased common shares over the last five years as follows:

Date	**Number of subordinate voting shares**	**Average issue/repurchase price per share** *($)*	**Net proceeds/ repurchase cost** *($ millions)*
1996 – issue of shares	1,600,000	187.81	288.3
– repurchase of shares	(3,500)	160.07	(0.6)
1997 – issue of shares	671,472	393.30	253.7
– repurchase of shares	(5,100)	308.82	(1.6)
1998 – issue of shares	1,000,000	475.00	455.6
1999 – issue of shares	2,000,000	500.00	959.7
– repurchase of shares	(706,103)	292.88	(206.8)
2000 – repurchase of shares	(325,309)	183.47	(59.7)

Fairfax's indirect ownership of its own shares through The Sixty Two Investment Company Limited results in an effective reduction of shares outstanding by 799,230, and this reduction has been reflected in the earnings per share and book value per share figures.

A common measure of capital adequacy in the property and casualty industry is the premiums to surplus (or common shareholders' equity) ratio. This is shown for the insurance and reinsurance subsidiaries of Fairfax for the past five years in the following table:

	Net Premiums Written to Surplus (Common Shareholders' Equity)				
	2000	**1999**	**1998**	**1997**	**1996**
Insurance					
Commonwealth	0.5	0.3	0.5	0.6	0.6
Crum & Forster	0.5	0.6	0.7	–	–
Falcon	0.3	0.3	0.1	–	–
Federated	1.7	1.6	1.6	1.2	1.2
Lombard	2.0	1.7	1.7	1.4	1.7
Markel	1.4	1.1	1.3	0.9	1.2
Ranger	0.4	0.8	1.2	1.1	1.1
TIG Specialty Insurance	0.8	1.1	–	–	–
Reinsurance					
Odyssey America Re	0.7	0.6	0.5	0.5	0.6
Canadian insurance industry	1.3	1.2	1.2	1.2	1.3
U.S. insurance industry	0.9	0.8	0.8	0.9	1.0

Effective July 1, 2000, CTR's European property and casualty business was being written through Odyssey America Re's Paris branch and effective January 1, 2001, its Asian property and casualty business was being written through Odyssey America Re's Singapore branch.

In Canada, property and casualty companies are regulated by the Office of the Superintendent of Financial Institutions on the basis of their Section 516 surplus. At December 31, 2000, Fairfax's Canadian property and casualty insurance subsidiaries had a combined Section 516 surplus of approximately $241 million (1999 – $233 million) in excess of minimum requirements.

In the U.S., the National Association of Insurance Commissioners (NAIC) has developed a model law and risk-based capital (RBC) formula designed to help regulators identify property and casualty insurers that may be inadequately capitalized. Under the NAIC's requirements, an insurer must maintain total capital and surplus above a calculated threshold or face varying levels of regulatory action. The threshold is based on a formula that attempts to quantify the risk of a company's insurance, investment and other business activities. Fairfax does not anticipate any adverse effects of such requirements. At the end of 2000, the U.S. insurance and reinsurance subsidiaries had capital and surplus in excess of the regulatory minimum requirement of two times the authorized control level – except for TIG, each subsidiary had capital and surplus in excess of three times the authorized control level. The company's objective is for TIG to have capital and surplus in excess of three times the authorized control level by the end of 2002. Subsequent to December 31, 2000 Fairfax contributed additional capital of $167 million (US$111 million) to TIG as part of its commitment to strengthen TIG's capital ratio. TIG does not intend to pay dividends until it has capital and surplus in excess of three times the authorized control level.

Fairfax and its insurance and reinsurance subsidiaries are rated as follows by the respective rating agencies:

	A.M. Best	**Standard & Poor's**	**Fitch**	**DBRS**	**Moody's**
Fairfax	–	BBB-	BBB*	BBB+	Baa3
Commonwealth	A	BBB+	A	–	–
Crum & Forster	A–	BBB+	A	–	Baa2
Falcon	–	BBB+	–	–	–
Federated	A–	BBB+	A	–	–
Lombard	A–	BBB+	A	–	–
Markel	A–	BBB+	A	–	–
Ranger	B++	–	A	–	–
TIG Specialty Insurance	A	BBB+	A		
CRC (Bermuda)	A–	–	–	–	–
CTR	A–	BBB+	A	–	–
Odyssey America Re	A	BBB+	A	–	Baa1
ORC Re	–	–	A	–	–
Wentworth	A	–	–	–	–

** Fairfax's claims paying ability is rated* a *by Fitch.*

Liquidity

The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due.

Fairfax's combined holding company income statement is disclosed, and its composition is explained, on page 99. As shown, the holding companies had revenue of $392.1 million in 2000, consisting of dividends from their insurance and reinsurance subsidiaries ($322.8 million), interest income ($21.1 million), management fees ($24.4 million) and realized gains ($23.8 million). After interest expense ($165.3 million), operating expenses ($51.0 million) and non-recurring expenses ($22.7 million), the holding companies had pre-tax earnings of $153.0 million. The operating expenses include, besides administration expenses, the cost of Fairfax's corporate catastrophe cover and certain systems and other costs of insurance subsidiaries reimbursed by the holding companies. The non-recurring expenses include certain C&F restructuring costs reimbursed by the holding companies and the amortization of note issuance costs. This income statement shows that in 2000, Fairfax comfortably met all its obligations from internal sources.

In 2001, Fairfax continues to have access to dividends and management fees and should again meet all its debt service and overhead obligations from internal sources.

At the end of 2000, Fairfax had a large cash and marketable securities holding of $545.4 million available to meet unexpected requirements. The cash in the holding company would permit Fairfax to meet its net interest, preferred dividend and other overhead expenses for approximately two years, without access to any dividends from its insurance and reinsurance

subsidiaries. As noted on page 85, subsequent to December 31, 2000 Fairfax contributed additional capital of $167 million to TIG out of its cash holding.

Also, Fairfax has in excess of $1.25 billion of unsecured, committed bank lines, of which $885 million are five-year lines (subject to reduction over the last three years of the five-year term if they are not renewed) and the remainder are non-renewed lines reducing over the period to 2004. The company has used $340 million of the credit available under the lines for the issuance of letters of credit in support of its subsidiaries' reinsurance obligations, principally relating to intercompany reinsurance of subsidiaries. The only significant covenant attached to these lines is a covenant to maintain a net debt to equity ratio not exceeding 1:1 (currently, that ratio is 0.35:1).

The company manages its debt levels based on the following financial measurements and ratios (with Lindsey Morden equity accounted):

	2000	1999	1998	1997	1996
			($ millions)		
Cash and marketable securities	545.4	712.7	305.4	207.1	101.1
Long term debt	1,851.4	1,959.0	1,444.4	718.4	470.5
Net debt	1,306.0	1,246.3	1,139.0	511.3	369.4
Common shareholders' equity	3,180.3	3,116.0	2,238.9	1,395.7	911.1
Preferred shares and trust preferred securities of subsidiaries	592.0	578.8	–	–	–
Total equity	3,772.3	3,694.8	2,238.9	1,395.7	911.1
Net debt/equity	35%	34%	51%	37%	41%
Net debt/total capital	26%	25%	34%	27%	29%
Net debt/earnings	9.5x	10.0x	3.1x	2.2x	2.4x
Interest coverage	0.9x	0.7x	6.6x	8.7x	6.2x

The company's financial position remains strong. The slight increase in net debt/equity and net debt/total capital ratios in 2000 is principally due to the weakening of the Canadian dollar against the U.S. dollar, which increases the Canadian dollar value of the company's U.S. dollar denominated debt (notwithstanding that that increase is offset by an equivalent increase in the dollar value of the company's U.S. assets). Excluding the impact of the U.S. dollar/Canadian dollar exchange rate movement in 2000, the company's net debt/equity ratio would be 33% and its net debt/total capital ratio would be 25%.

During 2000, the company repaid the vendor note given on the acquisition of Odyssey Re Stockholm ($53.9 million), TRG's long term debt ($60.2 million) and, to the extent required annually, long term debt of TIG ($12.4 million), amounting to an aggregate of $126.5 million, from subsidiary company dividends and cash flow. The company also repaid TIG's mandatory redeemable preferred stock of $36.3 million from holding company cash. Other than annual repayments on TIG's long term debt, the company does not have any long term debt or preferred security maturities until 2003, during which year $379.5 million comes due.

The recent net debt/earnings and interest coverage ratios reflect the company's low level of earnings in 1999 and 2000.

The company intends to examine instituting a dividend in 2001 at an annual rate of $1 or $2 per share (see page 10 of the Chairman's message).

Issues and Risks

The following issues and risks, among others, should also be considered in evaluating the outlook of the company.

Claims Reserves

The major risk that all property and casualty insurance and reinsurance companies face is that the provision for claims is an estimate and may be found to be deficient in the future for a variety of reasons including unpredictable jury verdicts, expansion of insurance coverage to include exposures not contemplated at the time of policy issue (e.g. asbestos, pollution, breast implants), and poor weather. Fairfax's gross provision for claims was $20,225.8 million as at December 31, 2000.

Reinsurance Recoverables

Most insurance and reinsurance companies reduce their liability for any individual claim by reinsuring amounts in excess of the maximum they want to retain. This third party reinsurance does not relieve the company of its primary obligation to the insured. Reinsurance recoverables can become an issue mainly due to solvency credit concerns, given the long time period over which claims are paid and the resulting recoveries are received from the reinsurers, or policy disputes. Fairfax had $11,099.5 million recoverable from reinsurers as at December 31, 2000.

Catastrophe Exposure

Insurance and reinsurance companies are subject to losses from catastrophes like earthquakes, windstorms or hailstorms, which are unpredictable and can be very significant.

Prices

Prices in the insurance and reinsurance industry are cyclical and can fluctuate quite dramatically. With under-reserving, competitors can price below underlying costs for many years and still survive.

Foreign Exchange

The company has assets, liabilities, revenue and costs that are subject to currency fluctuations, particularly in the U.S. dollar but also other foreign currencies. These currency fluctuations have been and can be very significant.

Cost of Revenue

Unlike most businesses, the insurance and reinsurance business can have enormous costs that can significantly exceed the premiums received on the underlying policies. Similar to short selling in the stock market (selling shares not owned), there is no limit to the losses that can arise from most insurance policies, even though most contracts have policy limits.

Regulation

Insurance and reinsurance companies are regulated businesses which means that except as permitted by applicable regulation, Fairfax does not have access to its insurance and reinsurance subsidiaries' net income and shareholders' capital without the requisite approval of applicable insurance regulatory authorities.

Taxation

Realization of the future income taxes asset is dependent upon the generation of taxable income in those jurisdictions where the relevant tax losses and other timing differences exist.

Common Stock Holdings

The company has common stocks in its portfolio, the market value of which is exposed to fluctuations in the stock market.

Goodwill

Most of the goodwill on the balance sheet comes from Lindsey Morden. Continued profitability is essential for there to be no deterioration in the carrying value of the goodwill.

Ratings

The company has reasonable claims paying and debt ratings by the major rating agencies in North America. As financial stability is very important to its customers, the company is vulnerable to downgrades by the rating agencies.

Holding Company

Being a small holding company, Fairfax is very dependent on strong operating management, which makes it vulnerable to management turnover.

Quarterly Data *(unaudited)*

(in $ millions except per share data)

Years ended December 31	**First quarter**	**Second quarter**	**Third quarter**	**Fourth quarter**	**Full year**
2000					
Revenue	1,485.6*	1,537.8*	1,345.4*	1,819.7	6,188.5
Net earnings (loss)	35.9	83.6	(22.1)	40.0	137.4
Net earnings (loss) per share	$2.58	$5.95	$(1.93)	$2.81	$9.41
1999					
Revenue	1,023.2	1,569.9	1,501.9	1,693.5	5,788.5
Net earnings (loss)	78.1	40.9	35.3	(30.1)	124.2
Net earnings (loss) per share	$6.37	$2.82	$2.45	$(2.44)	$9.20

* *Reclassified to conform with year-end presentation*

Stock Prices

Below are The Toronto Stock Exchange high, low and closing prices of subordinate voting shares of Fairfax for each quarter of 2000 and 1999.

	First quarter *($)*	**Second quarter** *($)*	**Third quarter** *($)*	**Fourth quarter** *($)*
2000				
High	246.00	194.00	201.00	242.20
Low	146.75	150.00	161.00	176.00
Close	178.00	162.00	188.25	228.50
1999				
High	610.00	460.00	425.00	279.50
Low	415.00	361.00	194.00	180.00
Close	440.00	395.00	220.00	245.50

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Fairfax Insurance and Reinsurance Companies

Combined Balance Sheets

as at December 31, 2000 and 1999

(unaudited)

	2000 ($000)	1999 ($000)
Assets		
Accounts receivable and other	2,677,220	2,148,313
Recoverable from reinsurers	7,224,342	7,793,632
Income taxes refundable	67,496	–
	9,969,058	9,941,945
Portfolio investments (at book value)		
Cash and short term investments	1,437,086	1,321,018
Bonds	9,939,970	11,531,924
Preferred stocks	70,212	116,549
Common stocks	562,270	1,491,311
Real estate	64,643	48,790
	12,074,181	14,509,593
Investments in Hub and Zenith	396,539	363,380
Deferred premium acquisition costs	382,898	336,874
Future income taxes	989,838	893,742
Capital assets	98,758	46,854
Other assets	12,526	27,426
	23,923,798	26,119,814
Liabilities		
Accounts payable and accrued liabilities	1,135,229	1,148,744
Funds withheld payable to reinsurers	1,324,680	1,198,516
Income taxes payable	–	57,070
	2,459,909	2,404,330
Provision for claims	14,958,155	17,168,763
Unearned premiums	2,233,333	2,050,160
Long term debt	27,766	40,211
	17,219,254	19,259,134
Shareholders' Equity		
Capital stock	2,965,571	3,331,453
Contributed surplus	698,675	39,542
Retained earnings	580,389	1,085,355
	4,244,635	4,456,350
	23,923,798	26,119,814

Fairfax Insurance and Reinsurance Companies

Combined Statements of Earnings

for the years ended December 31, 2000 and 1999
(unaudited)

	2000 ($000)	1999 ($000)
Revenue		
Gross premiums written	5,524,524	5,540,508
Net premiums written	4,335,093	4,022,541
Net premiums earned	4,297,346	4,232,251
Expenses		
Losses on claims	3,484,264	3,346,505
Operating expenses	674,128	633,114
Commissions, net	837,755	869,696
	4,996,147	4,849,315
Underwriting loss	(698,801)	(617,064)
Investment and other income (expense)		
Interest and dividends	593,512	711,475
Realized gains on investments	90,297	149,678
	683,809	861,153
Other	(55,497)	(63,082)
	628,312	798,071
Earnings (loss) before income taxes	(70,489)	181,007
Provision for (recovery of) income taxes	(281,706)	(143,740)
Net earnings	211,217	324,747
Loss ratio	81.1%	79.1%
Expense ratio	35.2%	35.5%
Combined ratio	116.3%	114.6%

Fairfax Insurance and Reinsurance Companies

Fairfax's insurance business is conducted by a number of subsidiaries. These subsidiaries underwrite a wide range of commercial and personal property, oil and gas, casualty and life insurance and property, casualty and life reinsurance in Canada, the United States and internationally.

Fairfax with Equity Accounting of Lindsey Morden

Consolidated Balance Sheets

as at December 31, 2000 and 1999

(unaudited)

	2000 *($000)*	**1999** *($000)*
Assets		
Cash and short term investments	450,205	613,197
Marketable securities	95,235	99,479
Accounts receivable and other	2,745,337	2,414,017
Recoverable from reinsurers	11,099,462	9,743,256
Income taxes refundable	155	96,812
	14,390,394	12,966,761
Portfolio investments		
Subsidiary cash and short term investments (market value – $1,954,096; 1999 – $1,844,218)	1,954,096	1,844,218
Bonds (market value – $11,295,015; 1999 – $12,065,723)	11,758,316	13,306,760
Preferred stocks (market value – $69,522; 1999 – $132,614)	70,212	133,928
Common stocks (market value – $859,751; 1999 – $1,403,367)	884,948	1,387,628
Real estate (market value – $76,347; 1999 – $80,735)	76,347	80,735
Total (market value – $14,254,731; 1999 – $15,526,657)	14,743,919	16,753,269
Investment in Lindsey Morden	101,927	104,607
Investments in Hub and Zenith National	396,539	363,380
Deferred premium acquisition costs	386,689	361,146
Future income taxes	1,273,899	890,574
Capital assets	110,936	89,567
Goodwill	34,074	6,690
Other assets	65,751	95,103
	31,504,128	31,631,097
Liabilities		
Accounts payable and accrued liabilities	1,374,629	1,296,872
Funds withheld payable to reinsurers	1,325,320	1,198,516
	2,699,949	2,495,388
Provision for claims	20,225,831	20,442,199
Unearned premiums	2,252,312	2,276,344
Long term debt	1,851,378	1,959,042
Trust preferred securities of subsidiaries	392,022	378,789
	24,721,543	25,056,374
Non-controlling interest	572,522	529,113
Excess of net assets acquired over purchase price paid	129,808	234,243
Shareholders' Equity		
Common stock	2,012,916	2,066,297
Preferred stock	200,000	200,000
Retained earnings	1,167,390	1,049,682
	3,380,306	3,315,979
	31,504,128	31,631,097

Fairfax with Equity Accounting of Lindsey Morden

Consolidated Statements of Earnings

for the years ended December 31, 2000 and 1999

(unaudited)

	2000 *($000)*	1999 *($000)*
Revenue		
Gross premiums written	6,054,324	5,707,518
Net premiums written	4,566,478	4,151,129
Net premiums earned	4,610,662	4,470,719
Interest and dividends	818,069	752,980
Realized gains on investments	378,305	121,670
Equity (loss) earnings of Lindsey Morden	(15,387)	2,784
	5,791,649	5,348,153
Expenses		
Losses on claims	3,874,882	3,578,337
Operating expenses	909,243	796,040
Commissions, net	885,247	869,696
Interest expense	164,743	129,262
Restructuring and other costs	16,402	–
Kingsmead losses	32,963	–
Negative goodwill	(79,245)	–
	5,804,235	5,373,335
Earnings (loss) before income taxes	(12,586)	(25,182)
Provision for (recovery of) income taxes	(173,306)	(158,023)
Net earnings before non-controlling interest	160,720	132,841
Non-controlling interest	(23,279)	(8,633)
Net earnings	137,441	124,208
Net earnings per share	$ 9.41	$ 9.20

Lindsey Morden Group Inc.
Consolidated Balance Sheets
as at December 31, 2000 and 1999

	2000 ($000)	1999 ($000)
Assets		
Cash	1,380	2,488
Accounts receivable	89,493	95,275
Claims in process	52,083	56,355
Temporary investment in common shares	–	10,277
Prepaid expenses	5,499	3,989
Income taxes recoverable	7,027	2,687
	155,482	171,071
Property and equipment	29,816	32,656
Goodwill	225,578	239,409
Future income taxes	9,039	7,038
Other assets	25,003	23,333
	444,918	473,507
Liabilities		
Bank indebtedness	42,469	43,801
Accounts payable and accrued liabilities	89,513	80,682
Income taxes payable	8,505	10,825
Current portion of long term debt	2,249	2,165
Future income taxes	6,647	10,084
	149,383	147,557
Long term debt	133,524	132,840
Future employee benefits	5,725	13,435
Other liabilities	3,121	2,586
	291,753	296,418
Shareholders' Equity		
Share capital and contributed surplus	167,458	147,090
Currency translation adjustment	(10,572)	(1,885)
Retained earnings (deficit)	(3,721)	31,884
	153,165	177,089
	444,918	473,507

Lindsey Morden Group Inc.

Consolidated Statements of Earnings

for the years ended December 31, 2000 and 1999

	2000 ($000)	1999 ($000)
Revenue	376,943	443,085
Cost and expenses		
Cost of service	305,756	333,870
Selling, general and administration	69,652	76,898
Interest	14,857	12,148
Other	13,838	–
	404,103	422,916
Earnings (loss) before income taxes	(27,160)	20,169
Provision for (recovery of) income taxes	(13,075)	5,938
Earnings (loss) before goodwill amortization	(14,085)	14,231
Goodwill amortization	9,038	9,518
Net earnings (loss)	(23,123)	4,713

Consolidated Statements of Retained Earnings (Deficit)

for the years ended December 31, 2000 and 1999

	2000 ($000)	1999 ($000)
Retained earnings – beginning of year	31,884	39,011
Net earnings (loss) for the year	(23,123)	4,713
Dividends paid	(12,482)	(11,840)
Retained earnings (deficit) – end of year	(3,721)	31,884

These condensed financial statements have been prepared from the Lindsey Morden Group Inc. audited consolidated financial statements as at and for the years ended December 31, 2000 and 1999, copies of which are available on request.

Fairfax Financial Holdings Limited

Unconsolidated Balance Sheets

as at December 31, 2000 and 1999

(unaudited)

	2000 *($000)*	1999 *($000)*
Assets		
Subsidiary companies		
Insurance companies	2,405,841	2,302,193
Reinsurance companies	1,614,983	1,400,716
Runoff companies	407,884	601,584
Hamblin Watsa	2,567	3,967
Noro	8,304	1,372
Other investments	10,606	10,606
	4,450,185	4,320,438
Cash and short term investments	450,205	613,197
Marketable securities	95,235	99,479
Swiss Re recoverable	165,466	225,365
Other assets	44,256	49,033
	5,205,347	5,307,512
Liabilities		
Accounts payable and other liabilities	57,804	282,122
Long term debt	1,767,237	1,709,411
	1,825,041	1,991,533
Shareholders' Equity		
Common stock	2,012,916	2,066,297
Preferred stock	200,000	200,000
Retained earnings	1,167,390	1,049,682
	3,380,306	3,315,979
	5,205,347	5,307,512

The investments in subsidiaries reflect the underlying equity of the subsidiaries. The investments in Hub International and Lindsey Morden are held through the company's other subsidiaries.

Fairfax Financial Holdings Limited

Unconsolidated Statements of Earnings

(combined holding company income statements)

for the years ended December 31, 2000 and 1999

(unaudited)

	2000 *($000)*	1999 *($000)*
Revenue		
Dividend income	322,816	374,131
Interest income	21,104	36,368
Management fees	24,350	18,661
Realized gains (losses)	23,784	(46,496)
	392,054	382,664
Expenses		
Interest expense	165,325	128,948
Operating expenses	50,951	41,066
Non-recurring expenses	22,730	8,797
	239,006	178,811
Earnings before income taxes	153,048	203,853

Note: The combined holding company statements include the unconsolidated earnings statements of Fairfax Financial Holdings Limited, the Canadian holding company, and the U.S. holding companies which have issued long term debt or trust preferred securities and which carry out certain of Fairfax's parent company corporate functions. These statements exclude intercompany arrangements other than dividends from subsidiaries, and exclude the combined holding company's premium payments and recoveries under the corporate insurance cover with Swiss Re. None of the companies pays tax currently, and accordingly these statements are presented on a pre-tax basis.

APPENDIX

GUIDING PRINCIPLES FOR FAIRFAX FINANCIAL HOLDINGS LIMITED

OBJECTIVES:

1) We expect to earn long term returns on shareholders' equity in excess of 20% annually by running Fairfax and its subsidiaries for the long term benefit of customers, employees and shareholders – at the expense of short term profits if necessary.

   Our focus is long term growth in book value per share and not quarterly earnings. We plan to grow through internal means as well as through friendly acquisitions.

2) We always want to be soundly financed.

3) We provide complete disclosure annually to our shareholders.

STRUCTURE:

1) Our companies are decentralized and run by the presidents except for performance evaluation, succession planning, acquisitions and financing which are done by or with Fairfax. Cooperation among companies is encouraged to the benefit of Fairfax in total.

2) Complete and open communication between Fairfax and subsidiaries is an essential requirement at Fairfax.

3) Share ownership and large incentives are encouraged across the Group.

4) Fairfax will always be a very small holding company and not an operating company.

VALUES:

1) Honesty and integrity are essential in all our relationships and will never be compromised.

2) We are results oriented – not political.

3) We are team players – no "egos". A confrontational style is not appropriate. We value loyalty – to Fairfax and our colleagues.

4) We are hard working but not at the expense of our families.

5) We always look at opportunities but emphasize downside protection and look for ways to minimize loss of capital.

6) We are entrepreneurial. We encourage calculated risk taking. It is all right to fail but we should learn from our mistakes.

7) We will never bet the company on any project or acquisition.

8) We believe in having fun – at work!

Consolidated Financial Summary *(in $ millions except share and per share data)*[1]

	Return on average shareholders' equity	Per Share: Share-holders' equity	Per Share: Net earnings – fully diluted	Revenue	Earnings before income taxes	Net earnings	Total assets[2]	Invest-ments	Net debt[3]	Share-holders' equity	Shares outstanding (000)	Closing share price
As at and for the years ended December 31:												
1985	–	2.08	(1.89)	17.0	(0.9)	(0.9)	41.5	32.7	–	10.4	5,000	3.25[4]
1986	25.4%	5.89	1.35	53.7	9.1	6.5	129.8	95.6	2.8	41.3	7,007	12.75
1987	31.3%	8.32	2.23	113.0	18.2	16.0	185.4	124.0	2.8	61.0	7,337	12.37
1988	21.2%	10.13	1.94	133.6	21.3	14.4	246.8	137.5	28.2	74.2	7,322	15.00
1989	20.3%	12.41	2.25	125.8	19.2	16.7	248.1	133.9	22.0	90.8	7,316	18.75
1990	23.0%	17.29	2.92	195.4	23.2	21.3	536.0	335.7	65.9	94.7	5,477	11.00
1991	21.3%	21.41	3.94	250.0	32.5	22.5	516.6	341.2	51.3	116.8	5,455	21.25
1992	7.7%	23.76	1.76	286.8	7.0	10.0	590.5	396.2	68.2	143.8	6,055	25.00
1993	20.3%	35.13	5.42	344.0	46.7	33.3	1,200.3	848.8	132.4	279.5	7,955	61.25
1994	12.1%	43.77	4.66	634.9	46.0	38.1	2,173.4	1,551.3	218.0	391.9	8,955	67.00
1995	20.1%	53.28	9.79	1,145.5	95.9	87.5	2,873.5	1,668.1	227.7	472.6	8,869	98.00
1996	21.4%	87.05	15.36	1,475.8	187.3	150.8	5,778.4	3,454.5	369.4	911.1	10,466	290.00
1997	20.4%	125.38	21.59	2,088.3	336.0	232.5	10,207.3	5,795.7	511.3	1,395.7	11,132	320.00
1998	20.1%	184.54	32.63	3,574.3	484.8	387.5	20,886.7	12,108.4	1,139.0	2,238.9	12,132	540.00
1999	4.3%	231.98	9.20	5,788.5	(17.3)	124.2	31,979.1	17,434.9	1,246.3	3,116.0	13,426	245.50
2000	4.1%	242.75	9.41	6,188.5	(32.9)	137.4	31,833.3	15,290.7	1,306.0	3,180.3	13,101	228.50

(1) All share references are to common shares

(2) Commencing in 1995, reflects a change in accounting policy for reinsurance recoverables

(3) Total debt (beginning in 1994, net of cash in the holding company) with Lindsey Morden equity accounted

(4) When current management took over in September 1985

Directors of the Company

* Winslow W. Bennett
President, Winwood Holdings Ltd.

* Robbert Hartog
President, Robhar Investments Ltd.

Paul B. Ingrey *(as of April 2001)*
Retired Reinsurance Executive
and Corporate Director

Kenneth R. Polley
Chairman
Lindsey Morden Group Inc.

* V. Prem Watsa
Chairman and Chief Executive Officer

* *Audit Committee Member*

Operating Management

John Watson, Chairman
Ronald Schwab, President
Commonwealth Insurance Company

Bruce Esselborn, Chairman
Crum & Forster Holdings, Inc.

Kenneth Kwok, President
Falcon Insurance Company Limited

John M. Paisley, President
Federated Insurance Company of Canada

Anthony F. Hamblin, President
Hamblin Watsa Investment Counsel Ltd.

Marty Hughes, Chairman
Richard A. Gulliver, President
Hub International Limited

Kenneth R. Polley, Chairman
J. Ferdinand Roibas, President
Lindsey Morden Group Inc.

Byron G. Messier, President
Lombard General Insurance Company of Canada

Mark J. Ram, President
Markel Insurance Company of Canada

Andrew A. Barnard, President
Odyssey Re Group Ltd.

Michael Wacek, President
Odyssey Re – Americas

Lucien Pietropoli, President
Odyssey Re – Euro-Asia

David Newman, CEO
Newline Syndicate (Lloyd's)

Philip Broughton, President
Ranger Insurance Company

Courtney Smith, President
TIG Specialty Insurance Company

Michael A. Coutu, Chairman
Dennis C. Gibbs, President
TRG Holding Corporation

Officers of the Company

Trevor J. Ambridge
Vice President and Chief Financial Officer

Sam Chan
Vice President

Francis Chou
Vice President

Jean Cloutier
Vice President

J. Paul T. Fink
Vice President

Bradley P. Martin
Vice President

Elizabeth J. Murphy
Vice President and Corporate Secretary

Eric P. Salsberg
Vice President, Corporate Affairs

Ronald Schokking
Vice President, Finance

John C. Varnell
Vice President

V. Prem Watsa
Chairman and Chief Executive Officer

Officers of Fairfax Inc.

Cindy Crandall, Vice President
James F. Dowd, President
Scott Galiardo, Vice President
James Migliorini, Vice President

Head Office

95 Wellington Street West
Suite 800
Toronto, Ontario, Canada M5J 2N7
Telephone (416) 367-4941
Website *www.fairfax.ca*

Auditors

PricewaterhouseCoopers LLP

General Counsel

Torys

Transfer Agent and Registrar

CIBC Mellon Trust Company

Share Listing

The Toronto Stock Exchange
Stock Symbol FFH

Annual Meeting

The annual meeting of shareholders of Fairfax Financial Holdings Limited will be held on Tuesday, April 17, 2001 at 9:30 a.m. in Room 106 at the Metro Toronto Convention Centre, 255 Front Street West, Toronto.